



House of Commons
Education and Skills Committee

Public Expenditure on Education and Skills

Second Report of Session 2005–06

*Report, together with formal minutes, oral and
written evidence*

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The Education and Skills Committee

The Education and Skills Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Education and Skills and its associated public bodies.

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Mr Douglas Carswell MP (*Conservative, Harwich*)
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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

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Committee staff

The current staff of the Committee are David Lloyd (Clerk), Rhiannon Hollis, (Second Clerk), Libby Aston (Committee Specialist), Nerys Roberts (Committee Specialist), Lisa Wrobel (Committee Assistant), James Alexander (Committee Assistant), Susan Ramsay (Committee Secretary) and John Kittle (Senior Officer Clerk).

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Conclusions and recommendations

Education spending trends

1. The Government sets great store by stability of funding; it needs to ensure that budget holders across the education sector are aware that funding will not rise at a significant rate over the next spending review period and beyond. (Paragraph 8)

Education expenditure, by sector, in real terms

2. The lower level of growth in investment in higher education compared to schools and further education is a concern if the intention is to maintain world class higher education in this country, including the recruitment and retention of high quality staff. (Paragraph 10)
3. The Government has already accepted that spending increases will be more modest in the years ahead. The DfES needs to be explicit in stating that growth in expenditure on education and skills will slow down significantly in the coming period. For schools that may mean growth of 2–3% a year in cash terms compared to 5–7% growth in recent years. (Paragraph 15)
4. As the school population falls over the next few years while the post-16 population rises the case for the 16–19 phase becoming the main priority will become increasingly hard to ignore. (Paragraph 16)

Schools' funding: new proposals

5. We would welcome far greater clarity from the Government about the precise objectives of the schools' funding arrangements for 2006–07 and, more particularly, when a new system comes into operation from 2008–09. (Paragraph 22)
6. We expect to be consulted at an early stage on the Government's plans for the new schools funding system. (Paragraph 24)
7. We expect the Government to take both transience and the provision of extra funding for individual pupils from disadvantaged backgrounds into account in developing the new formula. (Paragraph 25)

Efficiency savings

8. The two main ways in which the DfES is aiming to secure these efficiency savings, which will come largely from schools, is through more productive use of teachers' time and through more co-ordinated procurement of goods and services. Despite reassurances from Sir David Normington and the Secretary of State, we are sceptical about whether it will in fact be possible for £4.3 billion to be found in this way. (Paragraph 29)
9. The Committee believes it is imperative that the Department can provide concrete examples of where schools (and other institutions) have achieved efficiencies that

have produced new resources to be used for productive purposes. We will expect to see examples of such outcomes in the next two years. (Paragraph 30)

10. Given that the increase in expenditure on education is declining, we are concerned that too much reliance is being placed on future savings which may be difficult to achieve. The extent to which these savings are transparent will be crucial. Unless the savings that the Department is saying that it will be able to make are real savings which will fund activity it may find itself struggling to maintain its funding across the sector. (Paragraph 33)
11. We consider that there is a real danger that efficiency savings will be claimed but that evidence to verify those savings will not be available. (Paragraph 34)
12. When the process is complete, we ask the DfES to provide us with comparisons of staff numbers and functions pre- and post-restructuring, including any outsourcing from the Department to other agencies and expenditure on consultants. This should provide evidence of the Department's move to a smaller, more strategically focused role. (Paragraph 35)

Preface

1. This report arises from the Committee's annual examination of DfES expenditure and management of resources. It is based principally on the Department's Annual Report,¹ and meetings with the Rt Hon Ruth Kelly MP, Secretary of State for Education and Skills, and with Sir David Normington, then Permanent Secretary, Mr Stephen Crowne, Director, School Resources Group, and Mr Stephen Kershaw, Director of Finance, of the Department for Education and Skills. We also draw on answers to written questions we posed to the DfES.
2. In this first report on expenditure in this Parliament we comment on a number of the issues that our predecessors examined. In particular, we look at the overall pattern of spending on education and skills, the further changes to the schools' funding system and the Department's plans for efficiency savings under the Gershon process.
3. We are grateful for assistance with this inquiry from Tony Travers, Director of the Greater London Group at the London School of Economics.

¹ *Departmental Report 2005*, Department for Education and Skills, Cm 6522, June 2005.

1 Education spending trends

4. Education spending has increased as a share of the economy during a period of economic expansion, especially in the years since 2000–01, so the resources made available have increased significantly in real terms. However, there is now evidence that the increase in public expenditure on education (as a percentage of GDP) is levelling off. Health expenditure, on the other hand, continues to rise as a proportion of the economy.

Table 1: Public expenditure on education and health as a % of GDP, 1992–93 to 2004–05, United Kingdom

	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98
Education as % of GDP	5.4	5.3	5.2	5.1	4.9	4.7
Health as % of GDP	5.6	5.6	5.7	5.7	5.5	5.4

	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05
Education as % of GDP	4.6	4.6	4.8	5.1	5.2	5.5	5.6
Health as % of GDP	5.4	5.4	5.6	6.0	6.3	6.7	7.0

Source: *Public Expenditure Statistical Analyses 2005*, Cm 6521, London: TSO Table 3.4

Table 1a: Public expenditure on education and health, £bn, cash, 1992–93 to 2004–05, United Kingdom

	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98
Education	33.1	34.6	36.2	37.0	37.8	38.6
Health	34.4	36.8	39.6	41.6	42.8	44.7

	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05
Education	40.1	42.3	45.9	51.1	54.9	61.0	65.8
Health	47.1	49.6	54.3	59.9	66.3	74.9	82.6

Source: *Public Expenditure Statistical Analyses 2005*, Cm 6521, London: TSO Table 3.2

Table 1b: Public expenditure on education and health, £bn, real terms, 1992–93 to 2004–05, United Kingdom

(2003–04 prices)

	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98
Education	43.6	44.5	45.8	45.5	44.9	44.8
Health	45.3	47.2	50.1	51.1	50.9	51.9

	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05
Education	45.2	46.7	50.0	54.4	56.5	61.0	64.5
Health	53.1	54.7	59.3	63.7	68.2	74.9	81.0

Source: *Public Expenditure Statistical Analyses 2005*, Cm 6521, London: TSO Table 3.3

5. As the previous Committee discussed in its report last year,² measuring productivity in education remains problematic, as does establishing a direct link between increased expenditure and increased attainment by pupils and students.³ We intend to return to this issue in our next review of DfES expenditure this summer.

6. During our evidence sessions with DfES ministers and officials, we raised the issue of the apparently different treatment of education and health spending, with it appearing that health not education was the priority. Sir David Normington, then Permanent Secretary at the Department told us:

“...we have had this conversation before and it is not all about money; it is about how it is spent and there have been very substantial increases in education expenditure, but it is also about, as we will no doubt get on to, what you do with it. Obviously it has been spent differentially as well. There have been very large increases on schools within those overall sums and lesser increases in other areas.”⁴

7. While accepting there have been real increases in education expenditure as a proportion of GDP, we remain uncertain as to why education and health have been relatively differently treated by recent public expenditure settlements. This pattern is likely to continue at least until the end of the present Spending Review period. There is a risk that health service expenditure will begin to pre-empt education resources as public expenditure settlements become tighter.

8. It is clearly for the Government to decide its spending priorities, although we consider that spending on education is fundamental, as it makes a contribution to the life of the country that goes far beyond the boundaries of school, college or university. Indeed, in a society which is increasingly pluralistic, and when other social and cultural ties have been weakened, the importance of education as a cohesive force has increased. As Sir David noted, within general spending increases on education and skills some areas, above all schools, have benefited more than others. The same is true of the Government's overall planning of expenditure; inevitably, some departments will benefit more than others. However, given that it is the case that spending on education is going to rise much less rapidly than expenditure on health, and much less rapidly than over the last five years, the DfES needs to be as explicit as possible about the situation. **The Government sets great store by stability of funding; it needs to ensure that budget holders across the education**

2 Education and Skills Committee, First Report, Session 2004–05, *Public Expenditure on Education and Skills*, HC 168, paras 4–17.

3 See *Public Service Productivity Education*, UK Centre for the Measurement of Government Activity, Office for National Statistics, October 2005, and *Measurement of Government Output and Productivity for the National Accounts*, Final Report of the Atkinson Review, Office for National Statistics, January 2005.

4 Q 6

sector are aware that funding will not rise at a significant rate over the next spending review period and beyond.

Education expenditure, by sector, in real terms

9. Spending on each phase of education (apart from student support) has increased in real terms in the years since 1998–99. Overall, schools' current spending increased by 50%, compared with 56% in further education and an increase of only 18% in government funding to higher education.

10. Table 2 summarises spending per pupil/student data for the schools, FE and HE sectors in each year since 1998–99. Spending per pupil/student has increased fastest in schools, followed by further education. By contrast, real terms higher education spending per student has remained little changed, suggesting a continuing major relative shift of public resources away from universities towards other phases of education. Other university resources, of course, may have increased, such as research funding. **The lower level of growth in investment in higher education compared to schools and further education is a concern if the intention is to maintain world class higher education in this country, including the recruitment and retention of high quality staff.**

Table 2: Real terms funding per student/pupil, 1998–99 to 2003–04 (1999–2000 = 100)

	1998–99	1999–00	2000–01	2001–02	2002–03	2003–04	2004–05 plans	2005–06 plans
Schools	96	100	107	111	115	119	124	130
FE	93	100	104	112	113	120	122	127
HE	101	100	100	100	101	104	105	105

Source: Departmental Report 2005, Department for Education and Skills, Cm 6522, London: TSO, Tables 12.5 (derived from figures given), 12.6 and 12.7. Figures for 1998–99 derived from Departmental Report 2004, Tables 2.5, 2.6 and 2.7

11. Sir David Normington said in evidence that he believed these expenditure priorities had fed through into improvements in schools' performance in recent years. It is interesting to contrast what he said with his comments in last year's inquiry, when he was rather more circumspect about the relationship between investment and performance, saying, "I am confident that this money is worth investing, but I cannot prove to you...that a given level of investment produces a given level of output".⁵ As we said earlier, we shall be returning to this subject again in our next expenditure inquiry.

12. In what proved to be his final appearance before the Committee, Sir David explained what he was most satisfied with within his Department's achievements:

"If you ask me what I am proudest of in terms of performance, I think that, despite all the qualifications we might want to make, school performance, both primary and secondary, is dramatically up over this period and I think that has been money well spent because that is the investment in the future. I think that where we have not yet

5 Education and Skills Committee, First Report, Session 2004–05, *Public Expenditure on Education and Skills*, HC 168, para10.

made significant impact is in the performance of young people who do not go to university beyond 16. If you look at our performance there, those statistics have remained. The more people are staying on, those statistics in terms of what people are achieving have not gone up very much and that is why the Government is putting a lot of emphasis on the 14–19 age group in this period because we still have to convert the school performance into success in further education and training”.⁶

13. The implication of Sir David’s view is that there remains much to be achieved among those in the post-school age group who do not go to university. We strongly concur with this view. We would also point to the longer-term decline in the share of government funding allocated to higher education. The Government has given significant additional resources to push up schools’ performance while universities have received comparatively much smaller increases. We believe it is important that, as a society, we understand more about the impact on Britain’s higher education of the long term trend to shift resources towards schools. The Government should commission research to investigate the likely consequences of a continuing shift of support of the kind that has been achieved in recent years.

14. The Government would no doubt argue that the reason for introducing variable fees as from autumn this year is to help address this situation. It remains to be seen to what extent that will bring growth in university resources more in line with that for other sectors, and this is an issue we will no doubt wish to look at in more detail once the system is up and running.

15. We also point to the likely difficulties that schools may face in future years as and when their annual resource increases fall to levels below those enjoyed in recent years. **The Government has already accepted that spending increases will be more modest in the years ahead. The DfES needs to be explicit in stating that growth in expenditure on education and skills will slow down significantly in the coming period. For schools that may mean growth of 2–3% a year in cash terms compared to 5–7% growth in recent years.**

16. Given the slowdown in growth of education expenditure, the Government’s priorities within the overall budget will be more important than ever. Sir David commented on the failure of the Government to make ‘significant impact’ on the attainment of those aged over 16 who do not go to university. The Government is attempting to address some of these issues through its proposals in the Youth Green Paper.⁷ **As the school population falls over the next few years while the post-16 population rises the case for the 16–19 phase becoming the main priority will become increasingly hard to ignore.**

6 Q 7

7 *Youth Matters*, DfES, July 2005, Cm 6629.

2 Schools' funding: new proposals

17. The Government has announced that, from 2006–07, each local authority's expenditure on schools will be set by the Department and fully funded from central grant.⁸ This so-called 'Dedicated Schools Grant' (DSG) will then become the basis for local authorities to use their local funding formulae to allocate the overall total to individual schools. In 2006–07, the DSG will be determined for each authority as an uplift of 5% from the aggregate of 2005–06 spending by schools within the authority,⁹ though taking account of changing pupil numbers. There will also be a 5% increase in 2007–08. A small margin of resources that the Government will not have allocated in this way—roughly 1% of the total—will then potentially be available for distribution to authorities, partly on the basis of changes in the Formula Spending Share.

18. There will continue to be a Minimum Funding Guarantee for schools that will override all other arrangements and formulae. For the years from 2008–09, the Government has stated that a new funding method will be developed, one of the main characteristics of which will be that schools are given three year budgets. The impact of the funding guarantee has been to move towards a national funding arrangement, if not to a full DfES takeover of schools' resource allocations.

19. In her oral evidence to the Committee, the Secretary of State made it clear that stability was a key objective of schools funding from now on:

“There will be two minimum funding guarantees. There will be a minimum funding guarantee at the level of the school, because you rightly point out that this is an issue but that schools have asked us for stability and security of funding as an absolute priority at the moment, but there will be clear priorities that the local authority has because we are also saying that local authority funding will increase by a specific amount over the spend that it had in the previous year; so it will be able both to meet the minimum funding guarantee and have some headroom to distribute according to local priorities and local need.”¹⁰

20. We accept that individual schools want reasonable stability and predictability in their funding. However, we also see the need for fairness between schools in different circumstances. These circumstances may change over time, demanding some re-distribution of resources between areas and/or institutions. It is not clear whether such equity can any longer be easily achieved by a heavily damped schools funding arrangement.

21. We raised the issue of whether the system envisaged is compatible with the Government's plans to allow easier school expansion. We put it to the Secretary of State that the damping in the system would prevent a market system operating amongst schools. She said:

8 HC Deb, 21 July 2005, col 129WS.

9 This includes money provided by local authorities above the amount determined by the DfES, some £200 million across the country as a whole.

10 Q 159

“We are putting a damper on this, and I think, for absolutely good and sensible reasons; very rapid movements in funding can be very disruptive for a local area.”¹¹

We asked whether this undermined the basis for a market system. The Secretary of State said:

“Not at all. Indeed, 75% of the money follows the pupil immediately, so there are quite strong incentives for the school to expand and so forth. You would not want very rapid changes to hit schools, and indeed they tell us that they want some security of funding. I think local authorities accept that as well. The minimum funding guarantee is on a per pupil basis, so that does help provide some security for schools, and the fact that only 75% of the money follows the pupil provides an extra element of security for schools as well.”¹²

22. Despite the Secretary of State’s remarks we consider that the way the Designated Schools Grant is designed does have implications for other policies. The Schools White Paper envisages a schools system where successful schools expand and unsuccessful schools may eventually close. The funding system, for understandable reasons of maintaining stability, seeks to ameliorate the effects of falling rolls and in consequence reduces the speed by which an expanding school may increase its funding. The Designated Schools Grant, as currently designed, will operate perfectly well provided there is little change in the system, but appears less well equipped for a world in which schools may expand, new schools are created and schools may close more often than they do at present. **We would welcome far greater clarity from the Government about the precise objectives of the schools’ funding arrangements for 2006–07 and, more particularly, when a new system comes into operation from 2008–09.**

23. As we said earlier, the arrangements for 2006–07 and 2007–08 are interim arrangements with a new system of three year budgets being put in place from 2008–09. When we questioned Sir David about whether the redistributive element in the current formula had been overridden by the system of floors and ceilings imposed upon it, he said that:

“...if you look beyond the next two years there is a major question about what the right formula is. Some of what we are doing immediately needs to be about stability as we change the system because we know that these big changes in the system are the things that cause all the upset, as they did before, and we have committed ourselves to having minimum funding levels in two years, but then saying to ourselves in that period, and with others, ‘Have we moved to a longer-term system?’, and hopefully not have such a dependence on minimum funding levels because they do have the impact you are describing... I think it is an open question as to what the distribution formula is at that point.”¹³

24. The question of how the system to be introduced in 2008 will operate—to what extent there will be minimum funding guarantees and how redistributive it will be, for example—

11 Q 160

12 Q 161

13 Qq 29–30

is of vital importance. We and our predecessors in the last Parliament have tracked the problems with and developments in schools funding since 2003, and **we expect to be consulted at an early stage on the Government's plans for the new schools funding system.**

25. There are many issues which will need to be addressed in that process, and we highlight two here. In evidence, we asked officials about how the funding system coped with transience; pupils moving rapidly in and out of schools. Sir David said that there would be no more changes until the new system comes in 2008, and added that issues of this kind were difficult to allow for in a national system: "that is why there has to be laid over this a set of local decisions which take account of particular needs in the area".¹⁴ The second issue is how to provide extra funding to pupils from deprived backgrounds. In the Schools White Paper the Government announced additional funding of £335 million by 2007–08 for those local authorities with the largest numbers of underachieving and deprived children.¹⁵ We agreed that this was a welcome investment, but argued that it would not reach children from similar backgrounds living in other communities, and so recommended that the Government should develop with local authorities a system to direct additional funding at individual pupils from disadvantaged backgrounds wherever they live, possibly using local funding formulae.¹⁶ **We expect the Government to take both of these issues into account in developing the new formula.**

14 Q 64

15 *Higher Standards, Better Schools for All*, Cm 6677, DfES 25 October 2005, para 4.13.

16 Education and Skills Committee, First Report, Session 2005–06, *The Schools White Paper: Higher Standards, Better Schools for All*, HC 633–I, para 102.

3 Efficiency savings

26. The recommendations from the Gershon Review of public sector efficiency have been implemented across government in an attempt to achieve radical improvements in efficiency within Whitehall and the public services.¹⁷ Efficiency programmes started at the beginning of 2005–06 and run for three years. The DfES's target savings and progress so far are outlined in the Department's answers to written questions.¹⁸ In evidence to the Committee, the Secretary of State outlined the kinds of efficiency savings she expected to see achieved within education:

"I think we are completely capable of meeting the £4.3 billion within the timescale that we have been set to achieve it, and...we have been very transparent about how we are going to do that. We will achieve it, for example, through better use of teacher time—more productive time. Our workforce reforms are all about enabling teachers to spend more time preparing their lessons and delivering high quality lessons to pupils and less time carrying out administrative functions that can easily be done by support staff in the school".¹⁹

27. She went on to explain how devolution of funding to schools would, in her view, provide incentives for efficiency:

"A lot of it [money in schools] will be saved in schools because most of our money is now devolved to the front-line. There will also be savings through better procurement practices, working with schools and others to achieve savings in procurement and cash savings in schools through that as well which they will then redirect. They have a real incentive to go down this route because they will be able to redirect that money towards the front-line."²⁰

28. However, it appears to us that at present the Department is seeking to achieve the improved use of resources within schools without individual institutions being expected to respond directly to Gershon. Indeed, there seems to have been no direct communication with schools about Gershon efficiencies. When asked how a head teacher would respond if asked 'how much have you saved under Gershon', the Secretary of State said:

"I think it is the sort of thing that school improvement partnerships in their training learn about and then can question the head teacher about how they are procuring efficiency savings at the level of the individual school."²¹

29. The two main ways in which the DfES is aiming to secure these efficiency savings, which will come largely from schools, is through more productive use of teachers' time and through more co-ordinated procurement of goods and services.²² **Despite reassurances**

17 *Releasing resources to the front line: Independent Review of Public Sector Efficiency*, Sir Peter Gershon, July 2004.

18 Written Questions 2.1–2.3.

19 Q 149

20 Q 150

21 Q 185

22 Q 81

from Sir David and the Secretary of State, we are sceptical about whether it will in fact be possible for £4.3 billion to be found in this way.

30. The most important issue for schools, colleges and universities is the way in which efficiencies liberate resources that can then be used for productive purposes. The DfES cannot yet point to such a redeployment of money, though this is an issue that we will wish to return to. **The Committee believes it is imperative that the Department can provide concrete examples of where schools (and other institutions) have achieved efficiencies that have produced new resources to be used for productive purposes. We will expect to see examples of such outcomes in the next two years.**

31. It is interesting to contrast the way in which the DfES proposes to make its savings with Ofsted's plans. Ofsted has to make savings of £42 million out of a budget of £220 million. David Bell, then Her Majesty's Chief Inspector of Schools for England, told us precisely where those saving were being made:

"By April 2006, our new regional structure will be fully operational. We will have reduced the number of offices that we operate from 12 to 4 and the opening of our new national business unit in Manchester will combine to save nearly £18 million in our annual running costs. On top of that, the new system of school inspection has generated a further £15 million worth of savings. I think we are well on the way to the £42 million savings target that was set for us under the efficiency review."²³

Mr Bell has of course since become Permanent Secretary at the DfES following Sir David's move to the Home Office.

32. The DfES is responsible for a much larger budget than Ofsted, but the transparent and verifiable nature of Ofsted's process is in stark contrast to the vague and opaque efficiency savings promised by the Department. Nor is this a matter of points scoring. It really matters whether the DfES is going to make genuine savings which can be reinvested in its programme.

33. We are about to enter the final year of the current spending review cycle, and as yet we do not know what the settlement will be for 2007–08 and beyond. We can be sure, however, that in negotiating the funding for the next period, the Treasury will take into account, as it should, the efficiency savings that each department vouches for. In crude terms this may well mean that the starting point for the new spending round for the DfES will be the planned total for 2007–08, less £4.3 billion in efficiency savings. **Given that the increase in expenditure on education is declining, we are concerned that too much reliance is being placed on future savings which may be difficult to achieve. The extent to which these savings are transparent will be crucial. Unless the savings that the Department is saying that it will be able to make are real savings which will fund activity it may find itself struggling to maintain its funding across the sector.**

34. The Department said that the NAO would provide external verification of the savings made,²⁴ but it is not clear how it will be able to certify that the savings have been made if

23 Q 2, 9 November 2005

24 Q 110

they are to come from 23,000 schools across the country. **We consider that there is a real danger that efficiency savings will be claimed but that evidence to verify those savings will not be available.**

35. As our predecessors discussed last year,²⁵ the DfES is itself reducing its staff complement and redesigning itself to have a more strategic role. Sir David told us that the DfES had 760 fewer staff than in the previous year, well on the way to its target reductions of 1,460 by April 2008.²⁶ We will be very interested to see how the Department progresses towards its new size and function. **When the process is complete, we ask the DfES to provide us with comparisons of staff numbers and functions pre- and post-restructuring, including any outsourcing from the Department to other agencies and expenditure on consultants. This should provide evidence of the Department's move to a smaller, more strategically focused role.**

25 Education and Skills Committee, First Report, Session 2004–05, *Public Expenditure on Education and Skills*, HC 168, paras 35–47.

26 Q 95

Formal minutes

Wednesday 1 March 2006

Members present:

Mr Barry Sheerman, in the Chair

Dr Roberta Blackman-Woods	Mr Gordon Marsden
Mr Douglas Carswell	Helen Jones
Mr David Chaytor	Stephen Williams
Mrs Nadine Dorries	Mr Rob Wilson
Jeff Ennis	

The Committee deliberated.

Draft Report (Public Expenditure on Education and Skills), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 35 read and agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select committees (reports)) be applied to the Report.

Several papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

[Adjourned until Wednesday 8 March at 9.15 am]

Witnesses

Wednesday 12 October 2005

Page

Sir David Normington, Permanent Secretary, **Mr Stephen Kershaw**, Director of Finance, and **Mr Stephen Crowne**, Director, School Resources Group, Department for Education and Skills (DfES)

Ev 8

Wednesday 2 November 2005

Rt Hon Ruth Kelly, Secretary of State for Education and Skills, Department for Education and Skills (DfES)

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Oral evidence

Taken before the Education and Skills Committee

on Wednesday 12 October 2005

Members present:

Mr Barry Sheerman, in the Chair

Mr David Chaytor
Mrs Nadine Dorries
Jeff Ennis
Mr David Evennett

Tim Farron
Mr Gordon Marsden
Stephen Williams
Mr Rob Wilson

Replies to questions sent by the Committee to the Department for Education and Skills

1. NEW SCHOOL FUNDING ARRANGEMENTS FROM 2006–07

Question 1.1 The consultation documents issued by the DfES indicate a new funding arrangement in which the Department and Schools Forums will have an enhanced role with regard to schools' funding. The local authority role will be reduced and made subject to significantly greater oversight and control by the other two players. Is this a correct reading of the consultation papers?

At present the majority of funding for schools is provided through the Local Government Finance System: each local authority sets a Schools Budget, which is funded through a mixture of Revenue Support Grant, Business Rates and Council Tax. The local authority decides, in consultation with its Schools Forum, how its Schools Budget is to be divided between the budget for central spending on school provision and individual school budgets; and how individual school budgets should be calculated.

Under the new arrangements, local authorities will receive funding for their schools through the Dedicated Schools Grant, allocations of which will be determined by the Department. While the Dedicated Schools Grant will have to be spent on schools, local authorities will be free to add to it from their own locally raised resources, should they choose to do so. In addition, local authorities will have the scope, with the agreement of their Schools' Forums, to combine elements of their school budgets, financed through the Dedicated Schools Grant, with other budgets, to continue to support multi agency arrangements in support of the Children's agenda as set out in "Every Child Matters".

The Department will therefore be largely responsible for setting the level of spending on schools in each local authority area from 2006–07 onwards. However, under the existing policy of passporting, almost all authorities passed on the increases in school funding that were set by the Department each year: so the introduction of the Dedicated Schools Grant marks only a marginal increase in the control exercised by the Department. Nonetheless, what the creation of the Dedicated Schools Grant does achieve is a welcome clarification of the role of central government and local authorities in setting the overall level of schools' funding for each authority.

Local authorities will continue to be responsible for allocating funding between their schools, consulting their Schools Forums, as they do now. The new arrangements will see a number of decisions that are currently taken by the Secretary of State left to local discretion: the mechanisms for local decision making are discussed in the answer to question 1.3, and will only involve the Secretary of State in future where it is not possible to reach local agreement. In the future, therefore, we expect there to be less central decision making over the detailed operation of local formulae than there is now.

Question 1.2 What aspects of the existing Formula Spending Share method are thought to be least robust, given the Department's acceptance that it will need to consider a possible reform of the existing allocation system?

The consultation document on the modified method of allocating the new Dedicated Schools Grant, published on 5 August 2005, recognises that the current level of spend on schools in each authority is not purely determined by the Schools Formula Spending Share. In the current system, authorities choose the level of resources to spend on schools and thus both historical and more recent decisions are factors in determining the level of spend in any authority. The proposed modified method of distribution recognises that current spend does not fully reflect any formula, and it is important to allocate future increases in a way that reflects pressures and the Government's commitment to ensuring year on year increases in funding per

pupil for all authorities. We think that aspects of the current formula are robust, but we recognise that the current position does not match any formula. We will be consulting with our partners during 2006–07 and 2007–08 on what implications this has for funding in the longer term.

Question 1.3 What formal status will Schools Forums be given within the new arrangements for determining school funding and will they receive any funding to support their work? Will Schools Forums be able to over-ride or veto the decisions of a local authority about any aspect of school funding? Or will the local authority make all final decisions?

Schools Forums will be given new powers under the new arrangements to approve certain proposals put forward by their local authority. Specifically, their new powers will be:

- (a) to agree minor changes to the operation of the minimum funding guarantee, where the outcome would otherwise be anomalous, and where not more than 20% of the authority's schools are affected;
- (b) to agree to the level of school specific contingency at the beginning of each year;
- (c) to agree arrangements for combining elements of the centrally retained Schools Budget with elements of other local authority and other agencies' budgets to create a combined children's services budget in circumstances where there is a clear benefit for schools and pupils in doing so; and
- (d) in exceptional circumstances only:
 - (i) to agree an increase in the amount of expenditure a local authority can retain from its Schools Budget above that allowed for in the regulations;
 - (ii) to agree an increase in centrally retained expenditure within the Schools Budget once a multi-year funding period has begun; and
 - (iii) to agree changes to an authority's funding formula once it has been announced prior to the start of a multi-year funding period.

These powers relate to areas where we are providing some flexibility for authorities to move away from the requirements of the school funding regulations in order to take account of specific local circumstances: in the past it has only been possible to exercise such flexibilities with the approval of the Secretary of State. The Government believes it is right that it should be possible to agree to the exercise of these flexibilities locally if a consensus can be reached. Where that is not the case, the authority will retain the right to apply to the Secretary of State for a decision: Schools Forums will not have the right to over-ride or veto local authority decisions.

Funding for Schools Forums is a legitimate charge against a local authority's Schools Budget. The Department is currently working on good practice guidance on Schools Forums which will encourage authorities to provide an appropriate budget for their Forums. If the provision of additional funding for the Schools Forum would cause the authority to breach its central expenditure limit, it will be possible for the Forum to agree to a higher limit, as set out above.

Question 1.4 Is it correct to see the funding arrangements for 2006–07 and 2007–08 as, in effect, using the previous year's schools spending total (ie spending in 2005–06 and 2006–07) within each authority as the starting-point for the next year's schools funding allocation?

This is correct with respect to 2006–07: the base will be the 2005–06 spending total. However, funding for 2007–08 will use the 2006–07 Dedicated Schools Grant as the starting point. If authorities decide to put in additional funds in 2006–07 from their own resources, that will not affect the 2007–08 allocation.

Question 1.5 Will the review of Dedicated Schools Grant, to report by summer 2007, be undertaken wholly within central government, or will it be an independent review?

The review will be managed and mainly carried out by the Department, but we will work closely with external partners throughout, and they will be welcome to submit papers on issues of concern to them. There will therefore be scope for independent views to be considered during the review. The review will consider what lessons can be learnt from the first two years of the operation of the Dedicated Schools Grant, and will also work up proposals for the long term, for a robust distribution system that is appropriate for a grant which determines the funding level of schools to a much greater extent than the current system of Schools Formula Spending Shares.

2. GERSHON

Question 2.1 What is the total of Gershon-related efficiency savings that the full DfES expenditure programme is expected to achieve during 2005–06 and subsequent years? How much of this overall total is attributable to (a) the DfES's own expenditure, (b) to its sponsored bodies, (c) to local government, (d) to schools and (e) to other institutions?

Along with other Government Departments, DfES was set a target to make efficiency gains totalling 2.5% of its baseline in 2005–06, 5% in 2006–07 and 7.5% in 2007–08. Our baseline for this was the 2003–04 expenditure figure of £58 billion, so our target for 2007–08 annual savings is £4.3 billion.

Our target savings are:

for 2005–06—£1.4 billion

for 2006–07—£2.9 billion

for 2007–08—£4.3 billion

In order to meet the target the Department sought to identify savings in its own administrative costs and those of its NDPBs that can be reallocated to front line services, and to identify efficiency gains in the use of wider funding in the system as a whole.

We expect over a third of our total gains to be realised through improvements in productive time at the front line, and roughly a further third to be achieved through more efficient procurement practices. As the bulk of Departmental expenditure takes place in the schools sector, the majority, some two-thirds, of our efficiency gains are expected to come from within that sector.

It should be emphasised that our efficiencies are, in the main, efficiency gains (that involve enabling organisations at the front line to use their resources more efficiently) rather than cash savings (although there are some of those also). Many are productive time gains where, for example, teachers will be relieved of administrative duties and thus gain time to concentrate on teaching. Our efficiency gains will have the effect of making the increased resources the Government is committed to putting into front-line delivery go further.

The gains will be made in all the areas described in the question, including local authorities, (covering children's services and school administration), and other institutions, such as universities.

Question 2.2 What proportion of the Gershon efficiencies have already been achieved and how does the department monitor savings?

The Efficiency Programme runs from April 2005 though to March 2008 and is therefore in its early stages. We have done a great deal to ensure we are in the best possible position to realise our efficiency target over the next three years, but the programme is at too early a stage to quantify savings in 2005–06 and beyond.

We have established a Centre for Procurement Performance to promote better procurement across the education, skills, children and families system.

The New Relationship with Schools (NRWS) removes planning, reporting and monitoring requirements imposed by existing DfES programmes. There are fewer policy initiatives with funding attached, and therefore fewer planning operations to run and less detailed monitoring to be conducted.

We have made great strides engaging schools to deliver workforce reform where progress on implementation of the third and final phase of the National Agreement on workforce reform is very positive. At the start of the new school term virtually all schools reported that they had completed this final phase or had a plan to do so.

In keeping with our efforts to free-up the frontline from unnecessary bureaucracy, we have largely used existing data sources to provide information to inform progress towards targets. Most gains will be reported on an annual basis and the data will be collected centrally.

Delivery of all our gains will be achieved through some 10 different policy programmes across the Department. Each has measurement processes in place and reports progress to an Efficiency Board that in turn reports to the main DfES Board. The Minister responsible for efficiency receives regular monthly reports. The Department's Efficiency Technical Note, available on the Department's website at <http://www.dfes.gov.uk/publications/otherdocs.shtml> describes how each of the 40 stands are being measured.

Question 2.3 What new expenditure has been possible as a result of the Gershon savings? Please give examples of what has been purchased or achieved.

The great majority of the Department's expenditure is already devolved to the frontline. Schools and other institutions are in the best position to make decisions on how to spend their money in the best way possible to improve the attainment and life chances of pupils and other learners. Therefore, most of our efficiencies are being realised by front line institutions themselves; and the effect of our efficiency initiatives is to enable those organisations to make the most of the resources they have.

3. SPENDING REVIEW 2007

Question 3.1 *Because of the Chancellor's decision to hold the next Spending Review in 2007 (rather than 2006, as previously expected) are there any implications for the education programme of having to use the spending figures published for third year of the 2004 Review?*

As set out in the Chief Secretary to the Treasury's written statement to Parliament on 19 July 2005, the Government will report on the next three-year Spending Review covering 2008–09, 2009–10 and 2010–11 in 2007 and will hold Departmental allocations to the agreed figure already announced for 2007–08.

In practice, this situation is not particularly different from the situation in previous spending reviews. The spending figures for the third year of the 2002 Review (2005–06) did not change as part of 2004 Spending Review and we would not have expected radical adjustments to spending figures for 2007–08 as part of a 2006 Spending Review. It is open to Ministers to adjust spending plans within those budgets to respond to new or emerging priorities.

Question 3.2 *What are the percentage spending increases now expected for the DfES programme for 2006–07 and 2007–08 and how do these figures compare with the equivalent run of percentage increases in each year since 1997–98?*

The table below shows total DfES programme expenditure between 1997–08 and 2007–08 and expenditure on education and children's services delivered through the Office of the Deputy Prime Minister (ODPM):

SPENDING ON EDUCATION, TRAINING AND CHILDREN'S SERVICES
BETWEEN 1997–98 AND 2007–08 (£ MILLIONS)^{1, 2}

	1997–98	1998–94 ⁴	1999–2000	2000–01	2001–02	2002–03
Departmental Expenditure ³	12,644	12,536	13,695	16,336	18,934	23,208
Local Education Formula Spending (via ODPM)						
Education	18,367	19,384	20,414	21,479	22,513	22,502
Children's Social Services	1,755	1,829	1,900	1,988	1,833	1,910
Total expenditure	32,766	33,749	36,009	36,813	43,280	47,620
Year-on-Year change	NA	984	2,260	3,804	3,467	4,340
% Change	NA	3	7	11	9	10
	2003–04	2004–05 (Estimated)	2005–06 (Planned)	2006–07 (Planned)	2007–08 (Planned)	
Departmental Expenditure ³	26,068	27,739	30,688	32,944	35,230	
Local Education Formula Spending (via ODPM)						
Education	25,018	26,341	27,888	29,788	31,588	
Children's Social Services	3,038	3,737	4,015	4,315	4,515	
Total expenditure	54,124	57,817	62,591	67,047	71,333	
Year-on-Year change	6,505	3,693	4,774	4,456	4,286	
% Change	14	7	8	7	6	

1. Figures exclude central administrative expenditure.

2. *Source:* Departmental Expenditure Reports.

3. Sum shown are the Total Managed Expenditure.

4. £528 million moved from DfES to the Office of the Deputy Prime Minister for Nursery Vouchers.

In 2005–06 £62,591 million will be spent on education, training and children's services including £31,903 million delivered direct to Local Authorities by ODPM. This represents an increase of £29,826 million or an annual average increase of 8% since 1997. Total expenditure will increase on average by 7% per annum between 2005–06 and 2007–08.

4. PRIVATE INVOLVEMENT IN PUBLIC PROVISION

Question 4.1 The DfES, in common with the rest of government, has increasingly used private contractors to deliver aspects of public service provision. In education, this has meant initiatives such as PFI schools, contracted out learning accounts, privately-financed student residences, co-ordinated purchasing schemes and Academy Schools. How would the Department now describe the Government's approach to the use of the private sector within education?

The Department considers the range of delivery options for each of our policies. As part of our options appraisal we seek best value for money, informed by what will secure successful delivery both at the present and over time. This may involve public sector delivery, Voluntary and Community Sector (VCS) delivery or private sector delivery as appropriate to the circumstances.

Involvement of partners from a range of sectors increases contestability, allows for the introduction of specialist skills and knowledge, and allows the Department to share risk. And an additional gain flows from the transfer of skills and experience back to the Department.

Question 4.2 What assessment has the Department made of the effectiveness of private sector involvement in education? In particular, has there been any assessment of whether, and if so how, private contractors or investment have increased capacity or improved provision more effectively than would have been the case if the Department had used public provision alone?

Most of the Department's programmes are delivered in partnership with others from the public, private or voluntary and community sectors, and our major programmes and contracts are subject to performance review and evaluation. Given the wide range of forms of involvement, it would be difficult to make an informed assessment of the general impact of the private sector on the basis suggested.

However, the Private Finance Initiative (PFI) provides one important example of the contribution the private sector can make. Many local authorities have partnering arrangements with the private sector to invest in school building projects. There are now 63 PFI contracts in operation covering 435 schools; 29 signed contracts covering 292 schools where building works are in progress; and 16 more projects in development, covering 135 schools. Much of this work would not have been possible without private sector involvement through PFI. HM Treasury's 2003 report, "PFI: Meeting the investment challenge" found that about 85% of the school PFI projects it examined had been delivered on time or early, compared with an average of only 30% of previous non-PFI projects.

Question 4.3 What lessons have been learned by the Department about the use of the private sector within education during recent years?

There is good and bad practice in working with partners in all sectors. Whether delivery is through the public sector, VCS or private sector, good practice from the Department's experiences and others, including the Office of Government Commerce, suggests a good understanding of what we want, realistic timescales, effective risk management, clear agreements and effective and appropriate delivery monitoring and performance management are important.

Question 4.4 Are there any aspects or parts of education that could never, in any circumstances, be privately provided in this country (even if still free at the point of delivery)?

The Government is committed to a high quality and responsive state education system which is publicly funded and free at the point of delivery. The Secretary of State has made it clear that she is looking to widen the range of providers in the school system in order to turn round schools that have failed, push those that have been coasting and extend parental choice. She is interested in seeing how the Department can work with a variety of potential not-for-profit organisations to drive the next phase of reform and root it firmly in civil society. More broadly, the Government sees benefits in working with private sector bodies of all kinds—as well as with the voluntary sector—in specific cases where they can help to provide high quality goods and services, bring fresh ideas and expertise into the system or support the efforts of those who work in the public sector to raise standards and secure value for money. This has included for instance use in LEA interventions. It will continue to consider such opportunities on their merits.

More broadly, the Government welcomes opportunities for partnership with private sector bodies, whether not-for-profit or commercial, as well as with the voluntary sector and individuals, where these will help to provide high quality goods and services, bring fresh ideas and expertise into the system, and support the efforts of those who work in the public sector to raise standards and secure value for money. It will continue to consider such opportunities on their merits.

5. TARGETS

Question 5.1 Has there been any change to the Government's philosophy towards the use of targets between the publication of the 2004 and 2005 departmental annual reports?

There has been no change in philosophy, although the Government continually assesses the most effective use of target-setting approaches in the context of its wider agenda for public sector accountability and reform.

The Government introduced Public Service Agreements (PSAs) in 1998. Since then, the framework has evolved across government so that targets have reduced in number, become more focused, are better supported by performance information and by increased accountability and transparency. PSA targets are important statements of government priorities and outline what departments plan to deliver in return for resources allocated as part of the Spending Review process, but they need to be used appropriately at the local level.

The 2004 Spending Review took forward the Government's objective of a strong economy and a fair society with stability, security and opportunity for all. Increased resources are being focused on the front-line and will deliver improvements in the services that matter to the public. The 2004 Spending Review also set stretching efficiency targets for all departments to release additional resources to front-line services such as hospitals and schools.

The 2005 DfES Departmental Report sets out the Government's expenditure plans based on resources allocated in the 2004 Spending Review. It also reports progress against PSA targets and a summary of significant developments including progress towards the achievement of the commitments for 2008 set out in the Department's Five Year Strategy published in July 2004. The Five Year Strategy sets out a major programme of reform radically to reshape the systems for delivering education, training and children's services. DfES remains committed to achieving its PSA targets through its strategic leadership of the system and effective delivery programmes. DfES is working with HM Treasury and the National Audit Office to ensure that the data systems which underlie PSA targets enable the Department to monitor and report performance in the most timely and accurate manner possible.

Question 5.2 How many targets have been set by the DfES and its predecessor departments in each year since 1997–98?

Including Sure Start and targets transferred from and to other departments following Machinery of Government changes, the numbers of headline PSA targets are:

	<i>DfEE Headline Targets</i>	<i>DfES Headline Targets</i>	<i>Sure Start Targets²</i>	<i>Shared Targets</i>	<i>Total</i>
1998 Comprehensive Spending Review (1999–2000 to 2001–02)	11 (incl 3 ES targets) ¹		12		23
Spending Review 2000 (2001–02 to 2003–04)	13 (incl 4 ES targets) ¹		4		17
Spending Review 2002 (2003–04 to 2005–06)		12 ³	4	1	17
Spending Review 2004 (2005–06 to 2007–08)		9 ⁴		5	14

1. Responsibility for Employment Service (ES) targets transferred to DWP in 2002.

2. All Sure Start Unit targets joint with DWP.

3. Includes two SR2002 targets transferred from DH.

4. Includes Sure Start targets.

Question 5.3 What has been learned by the Department about the benefits and dis-benefits of targets?

The Government's overall ambition, set out most recently in the 2004 Spending Review, is that the PSA target framework should articulate and drive forward the Government's highest priorities and ambitions for delivery. PSA targets are an integral part of the Government's public expenditure framework, helping to ensure value for money from public services and that outcomes are delivered in return for resources.

Broad lessons have been learnt about PSA targets. They are a key element of the Department's Five Year Strategy and bring benefits by setting out what it aims to deliver for children, learners and the citizen in return for investment at the front line. They connect the Department directly to outcomes for citizens and provide a powerful encouragement for us to press forward and make sustained progress in a range of important areas. PSA targets need to be ambitious and stretching, but also realistic, achievable and backed by appropriate data and measurement systems. The PSA targets suite was made more "SMART"—Specific, Measurable, Achievable, Realistic and Time specific—in the 2004 Spending Review. At the local level

targets need to be designed in a manner so that local communities determine the areas where improvement is required, take ownership of reform and improvement, and link the targets successfully to local accountability and inspection frameworks. It is not necessarily the case that national targets should always be converted automatically to a comprehensive suite of targets at local level.

Question 5.4 Have there been any changes to the performance indicators published by the DfES between the publication of the 2004 and 2005 departmental annual reports?

Performance indicators underpin the Department's PSA targets and are published as part of the PSA Technical Notes, which set out how performance against each of the PSA targets will be measured. Technical Notes for the 2002 Spending Review and 2004 Spending Review PSA targets are available on the Treasury website: www.hm-treasury.gov.uk/performance/index.cfm.

The Department's performance indicators reflect the evolution of the Department's PSA targets. Fourteen PSA targets, outlined in the 2005 Departmental Annual Report, were agreed in the 2004 Spending Review, including targets for Sure Start and Children, Young People and Families. The PSA targets aim to continue to raise standards in many of the areas covered by the 2002 Spending Review PSA targets and the Department's new or revised objectives build on these as well as setting out objectives for the Department's new responsibilities for children, young people and families. Individual DfES programmes also use a range of performance indicators, which provide information on various policies and measures.

6. GOVERNMENT REPLY TO COMMITTEE'S 2004 REPORT (HC 492)

Question 6.1 In its response to the Committee's 2004 Report on Public Expenditure, the DfES stated: "The Government's proposal to introduce a new Dedicated Schools Grant to local authorities and three-year budgets for schools from April 2006 will not centralise school funding. Local authorities will continue to be responsible for the distribution of funding between schools in their area". Is this really true? How much freedom will authorities have to distribute funding outside the DfES's own rules?

As the answers to questions 1.1–1.5 make clear, local authorities will continue to be responsible for the distribution of funding between schools in their area. As now, local authority distribution formulae will have to comply with the school funding regulations, but these will continue to leave a wide range of issues to local authorities' discretion. The regulations will also continue to allow authorities to use an alternative method where application of the regulations would result in a school or a group of schools receiving anomalous budgets. At present, any alternative method has to be approved by the Secretary of State: under the new arrangements, certain types of alternative method can be approved locally by the Schools Forum if there is a local consensus.

7. DEPARTMENTAL STAFFING

Question 7.1 How have DfES staff numbers changed in the full period since the Lyons Review, Gershon and other efforts to reform the civil service? What functions (if any) that used to be undertaken by the Department are no longer undertaken? What are the planned DfES staffing numbers for 31.3.06 and 31.3.07?

Staff numbers

The Department plans staff reductions from its October 2003 baseline of 850 FTE (full time equivalents) by April 2006 and in total 1,460 by April 2008 as the result of the Departmental reform programme. Staffing numbers are set out in the table below.

<i>Period</i>	<i>DfES Staffing (FTEs)</i>
October 2003	4,660
September 2005	3,886
April 2006 (planned)	3,810
April 2007 (planned)	3,680
April 2008 (planned)	3,200

Changing the nature of the Department's work

When the reforms are complete the Department will be more strategic, providing strategic leadership to the system; smaller, doing less direct delivery and working with simpler systems and processes; professional and expert, providing quality analysis and with real knowledge of how the system works; and strong in our partnerships.

Examples of changes underway include:

- New Relationship with Schools (NRWS) is an example of how DfES is simplifying arrangements across the system. It reduces the requirements that large numbers of schools have to comply with. Instead it focuses each school on the key areas in which it needs to improve. In the process, it reduces demands that Government and local authorities make on schools. For DfES there are fewer policy initiatives with funding attached, and therefore fewer planning operations to run and less detailed monitoring to be conducted.
- Our new approach to Children's Services has won support for the Every Child Matters: Change for Children programme from key stakeholders and children and young people themselves. Over the next few years the Department will increasingly move away from detailed direct delivery, of Sure Start and the Connexions Service, to a more strategic enabling role with delivery through children's trusts. We will be simplifying funding streams and inspection arrangements requiring less resource at the centre and on the ground.

Lyons review

The Department made a commitment in the 2004 Spending Review to relocate out of London and the South East around 800 posts from the Department and its partner organisations by 2010. Good progress in securing commitments to relocate and delivering relocated posts has been made and we are confident that we will meet the commitment. Around 400 posts are committed to relocate by April 2006, of which around 60 have been already achieved. These include around 230 posts from Ofsted being moved from London and the South East to their three regional offices, posts in the Department, the Quality Improvement Agency (being established in place of the Learning and Skills Development Agency) and the Children and Family Court Advisory and Support Service—CAFCASS. Beyond April 2006, relocations will involve further Departmental posts as well as posts in the Qualifications and Curriculum Authority, the Training and Development Agency for Schools (formerly the Teacher Training Agency) and other Non-Departmental Public Bodies.

October 2005

Witnesses: **Sir David Normington**, Permanent Secretary, **Mr Stephen Kershaw**, Director of Finance, and **Mr Stephen Crowne**, Director, School Resources Group, Department for Education and Skills, examined.

Q1 Chairman: Sir David, can I welcome you again. It is really nice to see you and we hope you have had a good summer.

Sir David Normington: Not bad, thank you.

Q2 Chairman: You are the link in terms of continuity in the Department. We have seen Secretaries of State and Ministers move on on a regular basis. How many Secretaries of State have you seen in your time now?

Sir David Normington: It depends how you count them. Since I have been Permanent Secretary or Secretary, I am on my fourth, but David Blunkett and I only overlapped by three weeks.

Q3 Chairman: You have been in post how long—four and a half years?

Sir David Normington: Four and a half years, yes.

Q4 Chairman: So you are the continuity, whereas Ministers come and go.

Sir David Normington: Yes, well, they have done.

Q5 Chairman: So it is a heavy responsibility on your shoulders. As you know, this is a wide-ranging session where we really ask you about the value for money that our taxpayers are getting out of this increased amount of money that the Government has been putting into education generally, into education and skills, and we were looking at the run of expenditure on education. There is no doubt that if you look at the run over this period since the Prime

Minister talked about education three times, we can see the run from 1998–99 starting at 4.6, 4.6, 4.8, 4.9, 5.3 and 5.6, a steady increase and if you track it with health, you see of course the increase from 5.4, 5.4, 5.36, 6.2, 6.77 through to 2004–05. Then all the predictions change and health expenditure carries on increasing year by year and education is tailing off and plateauing and indeed some fear there will be a decline. Is that something that you feel happy about?

Sir David Normington: Well, it is continuing to increase, but it is just not increasing as fast, is it. Over this spending period there continued to be increases and they are real terms increases, ie, they are on top of inflation, so the investment goes on and the commitment is to get ahead of the proportion of GDP spent, the average on education, so the expenditure goes on. It is not increasing as fast as health, but that has been true actually all through this period.

Q6 Chairman: It is interesting, is it not, that in three elections the Prime Minister says the priority is education, but when we look at these figures the priority in terms of taxpayers' money is health, not education?

Sir David Normington: Well, we have had this conversation before and it is not all about money; it is about how it is spent and there have been very substantial increases in education expenditure, but it is also about, as we will no doubt get on to, what you do with it. Obviously it has been spent differentially

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as well. There have been very large increases on schools within those overall sums and lesser increases in other areas.

Q7 Chairman: Which bits of the spend are you more concerned about? What do you think have been the successes and which have been the ones that still worry you in terms of value for money out of the increased investment?

Sir David Normington: Well, in terms of performance, I think it will always be the case that the performance will lag the investment, and particularly in the first few years there was a lot of investment to catch up. If you ask me what I am proudest of in terms of performance, I think that, despite all the qualifications we might want to make, school performance, both primary and secondary, is dramatically up over this period and I think that has been money well spent because that is the investment in the future. I think that where we have not yet made significant impact is in the performance of young people who do not go to university beyond 16. If you look at our performance there, those statistics have remained. The more people are staying on, those statistics in terms of what people are achieving have not gone up very much and that is why the Government is putting a lot of emphasis on the 14–19 age group in this period because we still have to convert the school performance into success in further education and training.

Q8 Chairman: So you are saying that there is a relative success of improving the education system through pre-school through to 16, but you are still unhappy about staying-on rates in that 16–19 area?

Sir David Normington: I am saying that at last we are beginning to see improvements in staying-on rates. What we have not yet seen is very significant improvements in the attainment of 16–19-year-olds. We have seen improvements in A-levels, but not in vocational qualifications. We have seen some, but that is not yet matching international comparisons.

Q9 Chairman: I happen to agree with you in terms of the relative success of the investment, but why is it, do you think, that people outside do not seem to share that? If you listen to the *Today* programme and the presenters, the package, you get the impression that nothing is going right in education and then you pick up a copy of *The Times* and nothing is going right, there have been no successes and this investment is not working. What is it? Is there a conspiracy in the BBC that does not like you or something?

Sir David Normington: I would not dream of saying there is a conspiracy. I do not know. It is very disappointing. If you just take one of these figures which is literacy at 11, there has been, I think it is, a 17 percentage point improvement over the period since 1997. We are 6% short of the target that we have set. Now, you can write that story in two ways really. You can say, "What a disaster. They have missed the target", or you could write it as a 17% improvement. I think all the time we have a half-full/half-empty issue here and I think it depends on

where you take your stance really as to whether you write that as a half-empty story or half full. It seems that the half-empty stories are always the ones that catch the headlines and it is frustrating. It is very frustrating to me and my colleagues because actually we are really proud of what has happened.

Q10 Chairman: Is it not the case though that there is a view out there, so do you just have poor communications in the Department? Do you work hard on communicating with the media in terms of getting your message across or has Gershon been cutting your staff so badly you cannot communicate so much?

Sir David Normington: No, we work very hard on our communications. We have reduced our communications function a bit, but not to the extent that we cannot communicate. I think the most powerful communicators are going to be the people who are actually doing it and the people who are benefiting. We need to get the parents to be noticing it and we need to get the teachers to be confident about their achievements, and what we have, particularly in schools, is quite a lot of confidence that individual schools are improving, but nobody believes that that is system-wide, so we have this huge gap between what parents and teachers think of their own school and what they think of the system as a whole. We have the greatest difficulty convincing people that there is a national improvement here. We go on trying.

Q11 Chairman: You have my sympathy. I understand I have been blacklisted by the *Today* programme because I will not go reliably enough and castigate the Government on all occasions, so I have some sympathy there. Can I just push you a little bit though on higher education. If you look at the run of figures, the expenditure is very impressive in pre-school, it is impressive in school through to 16 and even in the FE sector it is better than one expects when one listens to some of the voices in the education sector. Higher education is still the smallest increase across the piece.

Sir David Normington: I think that is true, yes.

Q12 Chairman: Now, some of our colleagues in Parliament have recently been to India and China, and indeed the Higher Education Minister has recently been to India, and were absolutely terrified by the amount of investment they are putting in over there. Is it good enough that HE is still not getting a fair share of the investment?

Sir David Normington: Well, I think you have to decide where your priorities are. After all, there are some parts of the HE sector which have done exceptionally well. There is a huge investment in science and in fact that is perhaps the greatest investment in science facilities and science research. We are now maintaining the unit costs per student and are committed to doing so over the period to 2010, but of course the real answer to you, Mr Chairman, is that this is why we are looking for alternative sources of funding and why the Government is in quite controversial circumstances

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introducing tuition fees because that will raise extra money for the universities. In fact it looks as if it is going to raise about £1 billion, £300 million or so of which will be recirculated into support for poorer students which is a terrific outcome actually, but £700 million or so, and these are very broad figures, will be increased investment in universities. I think all across the education system, in fact all across the public services, you have to be looking at how much the State can do and who else should be contributing if they are benefiting. That is a particular issue in higher education where there are lots of returns to the individual from taking a higher education course.

Q13 Chairman: What do you think is the main theme of the Department for this Parliament? What do you hope to achieve that is different from what has been going on over the last few years?

Sir David Normington: Well, you should really put that to the Secretary of State, I guess.

Q14 Chairman: But what is your interpretation because you have a White Paper coming out imminently, in the next couple of weeks?

Sir David Normington: I think that there are many things that we will be doing to embed things already announced and let's be clear about that. We have not talked about pre-school investment in childcare which is an enormous programme, but the absolute priority in this period will be in the 11–19 phase. The Schools White Paper which will come out in a few weeks will be about schools generally, but it will have a lot to say about secondary education. And we will have more to say later about how we are getting on to implement what was said before the Election on the 14–19 phase. So actually raising standards of attainment, raising the diversity of choices open to the students in that phase, trying to put vocational education on a par with academic education, those are things that we will be focusing on. Actually the reason for doing that is because that is where the historic weakness of the UK education system is, as we were saying at the beginning.

Q15 Chairman: Are you going to carry on on this path of centralisation of the education system? You are getting rid of local education authorities and you are driving things. On the one hand, you are saying that all schools are going to be independent and they will have this tremendous different status than they have had in the past, but at the same time this sort of diktat is going out centrally from the Department that really you see a very centralised system.

Sir David Normington: Well, we do not think that is what we are doing. We do not think we are writing local authorities out of the picture and the Secretary of State has already had something to say about that. We are on a path to delegate more from the Department to regions and localities, particularly to front-line institutions. I know people have a view that the Department for Education and Skills is a highly centralising force and we are trying to shed that image. If you want a parallel trend over this period, it will be about devolution to the front line,

much less control, much more security over school budgets with much more freedom for them to spend that money on the things that they think are necessary.

Q16 Chairman: If you are in charge of the school fund and it comes directly from the Department with no real intermediary, that is a central government/local school relationship with no intermediary, is it not?

Sir David Normington: No, the local authorities will continue to set the local formula and will decide how the money is to be spent locally within national guidance. What we are actually doing in this from 2006 is ring-fencing the money for schools within the local authority settlement and it will become part of my budget, that is true, it will be called the Dedicated Schools Grant, but actually the distribution of it will be done locally. The decisions about the distribution will be done locally.

Q17 Chairman: You and I know that there is a degree of unhappiness about these changes. You and I know that in local government people are saying that a major service has been taken away from them. That is what they are saying and they are scaling down their education staffing dramatically, so come on, there is a real difference, a real qualitative change, a dramatic change in how we are delivering education in our country.

Sir David Normington: Well, of course there are some people who are unhappy with it, that is true, and it is certainly the case that local taxation will not contribute in future to the degree it has in the past to schools and it will be funded centrally, so that is true and there are people who are unhappy about that. We would say that there remains lots of discretion at local authority level and, importantly, we, with the ODPM, are beginning to redefine the role of the local authority as a commissioner of services for children. Actually many local authorities are very interested in that and the best ones are actively engaged in discussing that. The Secretary of State made a speech about this at the beginning of September, and of course it did not get any publicity, but for those who were really interested, it had a very warm reaction from local authorities and they were really pleased that we were beginning to define clearly that we did think the local authorities had a role. The role is to be champions for children and to be champions for the community, but it is not to run schools.

Q18 Chairman: Sir David, you and I know also that this whole new funding regime came out of chaos and it came out of a panic in your Department over school funding two years ago. Is it a good way to make policy, that you have a crisis, you have got the *Today* programme and the press running with stories and then suddenly you bring in a new system for school funding because you are in a panic? It is almost as bad as the Dangerous Dogs Act. You have been in for five years. Is this a calm and reflective way to change policy?

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Sir David Normington: Actually I think it is really because what we did after the problems which we discussed here before was we tried to stabilise the position by ensuring that every school was guaranteed a minimum increase. That was the system which we put in place immediately after those problems that you describe. What we then moved on to was trying to find a way of securing the school budgets. One of the problems about where we have been is that you announce what the money is for schools and then it is possible locally for that money not to be spent on schools, and that is a problem for schools as well as for national governments giving priority to education. So this system is designed to say, "This is the money for schools", and it actually is, and then to provide schools with security over a period and eventually, we hope, over a three-year period that they know what their budgets are going to be. They have never had that before. This living from pillar to post is very destabilising to the management of a school and it stops us saying to them, "You need to manage your budgets better and you need to deliver some bigger outputs for those budgets", so we are trying to secure stability in the funding system. You can trace this a bit from those problems in 2003, but this decision was one that we took in the five-year strategy context a year or so ago.

Q19 Chairman: After eight years we are getting it right, are we?

Sir David Normington: I am sure.

Q20 Mr Evennett: I would like to push Sir David on one point when we were talking about the media and improving the position of standards and increasing funding, but you did mention in your reply to the Chairman how it was not just the media who said that things have not been improving, but it has been employers and universities. They say that standards of new recruits in English and maths have not improved and in fact in some areas they have gone down. How do you answer that?

Sir David Normington: Well, they do say that and, as an employer myself, I sometimes see that the standards of English and maths are not good enough amongst those coming into my employment. This is the half-empty/half-full thing. Things have really improved, but I do not think it is yet good enough. The focus that I was describing on what happens in the 11–19 phase includes a continuing and renewed focus on English and maths because the standards are not yet good enough, but they are improved.

Q21 Mr Evennett: But that is the debate, is it not? Some people say they have not improved, that they have gone down. Rather glibly you are saying that they have improved, but we have evidence that they have gone down.

Sir David Normington: No, we have evidence that they have improved and I am absolutely clear that at every phase, at Key Stage 2, at Key Stage 3, 14-year-olds and at GCSE, standards have improved and are improving. This year we will see some of the best results at all those stages that we have ever had. We

are actually beginning to see the investment in primary schools in English and maths coming through into GCSE this year. That is really encouraging. You would expect to see that, but it is not good enough yet, I accept that, and employers are not seeing enough of it and there is a historic problem to make up as well. I hear employers myself saying that, I hear it.

Q22 Mrs Dorries: Last time you were here you were asked to prove, if you could, as a given that the level of input and investment in education had actually improved. Now, you seem to be saying today that the reason why the standard is half full is because of that investment. Now, before you actually said, "I would like to be able to prove a link. I would like to be able to do that because I cannot". Actually on August 19, Lord Adonis said that the better results are the product of the increased level of investment in education, so which way is it? Is it that the results are better because of the increased investment or what because you said not and Lord Adonis said it is.

Sir David Normington: No, I did not say not. I said I could not prove a direct link between investment in one area and an outcome. I am absolutely certain that the investment we have made in facilities and in teachers over this period and actually focusing on those key stages, improving the materials, improving the quality of the teaching, I am absolutely clear that that is having its impact. What I cannot prove, and I still cannot prove, is for a given level of investment you will get a given level of output which is the conversation we were having at the time. I cannot say to you that if we put £100 million in there, we will get this amount of performance out, but I am absolutely confident that the investment is producing the improvements partly because of how you can trace the improvements to places where we have put our effort.

Q23 Mr Chaytor: Sir David, you argue that the theme of the next few years will be decentralisation for schools, that your Department is nationalising the funding system. Two weeks ago the Government took a decision to postpone the re-evaluation of council tax on the grounds that it wanted to wait for the outcome of Sir Michael Lyons' wide-ranging review into the future of local government. If the Lyons Review argues for much more decentralisation, including in terms of funding, where does that leave your new nationalised funding system?

Sir David Normington: Well, of course it is for the Government to decide how it reacts to a message of that sort. I think it is possible to say that some things ought to be ring-fenced and some things ought to be devolved. One effect of course of taking school funding out of local authority and local taxation is that for the other services, local taxation is a bigger share of those other services which in a sense will mean that in those services there will be more devolution. We can use the term "nationalised", but what we have done is ring-fenced the money. It is

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called the Dedicated Schools Grant because we are saying that this is the money for schools. Yes, it is a national amount of money, but two things: the local authority will set the formula; and, secondly, there will be much more discretion for schools to spend it as they wish with much less prescription from us as to what they should spend it on because we are reducing, and it is true, we have had lots of budgets. On top of the local settlement, we have had lots of other budgets and we are reducing all those. We hope to reduce them to a very small number, we are in the process of doing that, and that will give schools much more discretion and certainty over their budgets. Now, we can call this a nationalisation, but we of course think it is more devolution to the front line within that system.

Q24 Mr Chaytor: Would you have gone down this line had there not been a degree of tabloid hysteria after the introduction of the previous changes in 2003? Is this simply a response to pressure brought by some schools and some local authorities at that time?

Sir David Normington: We did not need to do this in order to stabilise school funding. What we did in the years after the problems we had with school funding was to introduce the minimum funding guarantee. We did that within the former system, the system which we are leaving, and that did stabilise funding. We could have stopped there, so I do not accept that the policy change we are now making was necessary because of the problems we had. It was thought to be, as I have described, an important way of stabilising and securing certainty about school budgets.

Q25 Mr Chaytor: But the minimum funding guarantee was necessary as a response to the problems that we had.

Sir David Normington: Yes, because it meant that basically every school was guaranteed that they would have an uplift in their funding year on year and that is what we introduced immediately afterwards.

Q26 Mr Chaytor: Could I just pursue the minimum funding guarantee and ask what effect that has had on the changes that were previously agreed to be brought in from 1 April 2003 along with the abolition of the earlier system?

Sir David Normington: Inevitably to some extent they have damped the effect of the redistribution.

Q27 Mr Chaytor: Exactly to what extent has it been damped? Has it not been sabotaged rather than damped?

Sir David Normington: I do not know about sabotaged. Stephen Crowne is the absolute expert on this.

Mr Crowne: When we introduced the new formula which did redistribute money around the system, we did that within the system of floors and ceilings to ensure that the changes we are proposing were manageable. Basically the pace at which you can go depends on how much resource is in the system

because any system of floors and ceilings is going to cost you some money. In other words, if you have to protect the position of those who would lose relatively, that will consume some resource. There is no doubt that the minimum funding guarantee, as it were, defined what our floor was going to be. In other words, you had to ensure that every local authority had funds to meet the minimum funding guarantee requirements, but I cannot answer the question of how much that damped the system because it all depends on what the overall envelope of resource looked like. I would say to you that what the effect of the MFG was, was to make the changes in the formula manageable over time. The judgment then is at what level you set the minimum funding guarantee.

Q28 Mr Chaytor: But the abolition of floors and ceilings and the replacement simply by a floor has essentially stopped in its tracks the process of redistribution which was agreed under the previous formula.

Mr Crowne: I do not think I would go that far. I would say it has certainly extended the timescale. If you have a higher floor, you are bound to take longer to get to the new formula distribution. That would be the case if you had a minimum funding guarantee or not if you set the floor at a given level. I would argue that the purpose of the new minimum funding guarantee is to give the required degree of stability at an individual school level; it is not to stop the formula change happening.

Q29 Mr Chaytor: So will the principles of the formula established in the previous organisation still be followed through, but over a longer period of time? Are we still going to see a redistribution from those local authorities essentially in the south-east who have benefited enormously for the previous 15 years from the funding system to those local authorities largely in the north who have been penalised under the previous system? Are we still going to see this process of redistribution?

Mr Crowne: Ministers are currently consulting about issues in this area. What we have said for the Dedicated Schools Grant which comes in in 2006–07 is that every local authority's grant will be based on their actual spend in 2005–06, and, as you will know, that varies around the formula position quite markedly, and then we will guarantee for every local authority a 5% per pupil uplift in each year and that is to underpin the minimum funding guarantee. The question then is what you do with what is left over and there is a substantial chunk of money, maybe up to £½ billion in each year, and what we are now consulting about is how that money should be distributed. Clearly one of the options would be to use some or all of that money to make progress towards the formula distribution, but there are other options and indeed a number of local authorities are very interested in other options. We are looking at the responses now and no decisions have been made, but I am sure Ministers will have in mind the possibility, the option of making progress towards the formula distribution.

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Sir David Normington: If I may just add, if you look beyond the next two years there is a major question about what the right formula is. Some of what we are doing immediately needs to be about stability as we change the system because we know that these big changes in the system are the things that cause all the upset, as they did before, and we have committed ourselves to having minimum funding levels in two years, but then saying to ourselves in that period, and with others, "Have we moved to a longer-term system?", and hopefully not have such a dependence on minimum funding levels because they do have the impact you are describing.

Q30 Mr Chaytor: So in 2009 there is going to be no change in the system?

Sir David Normington: Well, I do not think there is going to be any change in the overall system, but I think it is an open question as to what the distribution formula is at that point.

Q31 Mr Chaytor: But you would accept that it would be a gross reversal of policy if the gap in the minimum funding guarantee was to widen the differentials between per pupil spend whereas the purpose of the previous changes in 2003 was to narrow the differentials?

Sir David Normington: Well, the purpose of the previous one was really to ensure that the distribution formula was based on a number of factors which included deprivation and so on. There are all sorts of things in that formula. It is always the case, you know, when you make a transition in local authority funding that you put floors and ceilings in and you damp the effect over a number of years, sometimes of a lot of years. I think in police funding that was done partly because, otherwise, you have very sharp cliff edges in funding and also in 2003–04 the introduction of the new formula did bring about quite a shift. I know about Bury because of course they put in a memorandum to this Committee.

Q32 Mr Chaytor: I think it was the third submission received by the Committee. The urgency of it is significant.

Sir David Normington: I know about that. The important thing just to say about Bury is that in 2003–04 it did, as a result of the new formula, get a significant shift in its funding. I know people are not very happy about the level they have got to, but it was a big shift and it has had, therefore, over this period one of the biggest increases in funding of all local authorities, partly reflecting some of the things that you are continuing to say. The Bury spend per pupil is just below the national average.

Q33 Mr Chaytor: But we are talking about a whole class of local authorities here, not just this one.

Sir David Normington: Yes, but every local authority has their case, as you know.

Q34 Mr Chaytor: The new system will provide for some compensation in terms of the schools that are losing pupil numbers, so there will be an adjustment

to give slightly extra funding to compensate for the fall in rolls and slightly reduced extra funding for those schools that are increasing their rolls.

Sir David Normington: That is right.

Q35 Mr Chaytor: How does this fit in with the whole process of devolution because successive governments' thinking has been that as we move to a more market-based system, more popular schools will expand and the less popular schools will go to the wall, but what you are doing here is actually intervening in that process to limit the effects of parents choosing particular schools?

Sir David Normington: Only in the transition. I think this is about trying to avoid very sharp drops in funding because of course if you lose pupils suddenly, it is not always easy to take those costs out just like that, so some of this is about the transition really and it is not about stopping the process of resources following the pupil, which is the basis of the system, but it will just take a bit longer.

Q36 Mr Chaytor: Can you see any ways in which the local formula could be manipulated by local authorities to take advantage of the particular features you have put in? Are we going to see an army of consultants being recruited by local authorities to teach them how to beat the system?

Mr Crowne: It is a difficult question to answer!

Q37 Chairman: Well, the answer is yes, of course!

Sir David Normington: Actually the answer is no, I think.

Mr Crowne: In answer to your last question, I certainly hope they are not going to recruit an army of consultants. What we do want to do though is ensure that the framework within which they define their detailed formula is clear about the principles, and the principles have been established for some time, that 75% of the budget could be allocated on a pupil numbers basis, but there is plenty of discretion about the other 25% and that is absolutely right because different local authorities in different circumstances are facing different challenges. As to whether individual local authorities would somehow manipulate this, I do not really see that. The discretion is there for a purpose. They need to respond to local circumstances. We have given schools forums the ability to scrutinise. We are encouraging local authorities to work very closely with their schools forums and indeed for the first time we are giving schools forums some decision-making powers which have been devolved from the Secretary of State, from the centre to local level, so the system will operate with a greater degree of transparency. There will be more opportunity for those with a local interest to ask why certain decisions are taken and we are already beginning to see, I am glad to say, a degree of more transparency in the way the local systems operate. I am very confident that we are going in the right direction.

Mr Chaytor: If one of the aims of the Department is to make the system more simple, I have to think of the explanation you gave us of the new system for school funding. We could not understand it and our

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specialist adviser found it too complicated, so heaven help many of the local authorities that have to find their way through it, but we can come back to that.

Q38 Tim Farron: On the theme really there about clarity, I am concerned about public and democratic accountability for the success or other performance of the school system. Do you think that the new system will provide that clarity about where schools funding actually comes from or do you think that there may continue to be ambiguities about who is responsible for different roles of local authorities in the Department?

Sir David Normington: It will be clear. It ought to be clear that all the money is coming from central government, except for the amount that comes from the local authorities, and it ought to be clearer, but it is nevertheless the case that in our system we share responsibility and, therefore, there is scope for one lot blaming the other really and sometimes that happens, so I—

Q39 Chairman: It happens all the time!

Sir David Normington: Occasionally. The national/local position is there, it remains in place and I think it will be more transparent, as Stephen Crowne was saying, about what money is coming into the schools' budgets and why. I think one of the troubles has been that there have been so many pots of money and it has not been very clear which pot came from where. There will be basically two or three main streams of funding coming in in due course, sources of revenue funding, and I think that will be a lot clearer, but I do not promise that this will be completely clear to the local taxpayer; I think that will continue to be an issue.

Q40 Tim Farron: So when the A-levels are good, Ruth Kelly goes on the radio and when it is a school with special measures, it is the LEA that gets the blame?

Sir David Normington: No, we take responsibility for the successes and failures in the system, but we always say, which is true, that it is the schools that are delivering both the successes and the failures. It is what they do that really matters.

Q41 Tim Farron: I am obviously concerned about outcomes in the end and whatever the process of this is, there surely must be some assumption as to what the outcomes are likely to be. Clearly it would appear that the Dedicated Schools Grant and the new system in general will ensure more popular schools are rewarded less quickly and less for their popularity and less popular schools will be hit less and less quickly for their unpopularity and those unpopular schools that make successful attempts to turn things around will be encouraged to do so in a slower and less effective way. Are these the Government's intentions?

Sir David Normington: I do not think any of that is right actually. The Government's policy is to allow popular schools to expand and to set aside capital to enable that to happen faster than it has. The

Government's policy is also to ensure that where a school is weak or failing, there is faster action taken so that schools are not left lingering, which they sometimes have been in the past. I think that the conversation we have just had about money following the pupil, the money will follow the pupil, but it is just that in reality to take the money away from a school just like that is a big problem for a school. The reality of how you manage a school is that if your numbers fall, you cannot get the costs out fast enough, so if you take the budget away from them, the school would be in terrible difficulty. Therefore, all we are doing is just dealing with that, as far as I can see, and it will still be the case that money will follow the pupil and that we will be encouraging popular schools to expand and providing capital money for that to happen.

Q42 Tim Farron: I have a final question of particular concern to the constituency I represent. What work has the Department done on the likely outcomes with regard to small rural schools, particularly those with falling rolls, of these changes?

Mr Crowne: One of the great strengths of the local formula system we have is that local authorities with schools in that position can, with a great deal of discretion, design a local system which will be fit for purpose in those circumstances. We have been very careful when we have been designing the minimum funding guarantee and so on to ensure that that discretion is still there. Indeed quite a lot of authorities with large numbers of very small schools have very distinctive arrangements for funding those schools. That is because such a high proportion of their costs are fixed compared with larger schools. Therefore, I am confident that the current architecture, the architecture that we are introducing certainly does not reduce the ability of the local authority to design a locally fit-for-purpose system and indeed I think in some respects it increases it.

Sir David Normington: Well, we do have falling rolls in some places and they are quite sharp in some parts of the country and that is obviously raising issues about—

Q43 Tim Farron: But they are not as a result of schools failing; they are as a result of communities dwindling and the schools do not need to be punished for that.

Sir David Normington: It is the result of school demographics really and also movements of population actually from north to south in many respects.

Q44 Chairman: If you have got so many fewer pupils coming through because of the sharp demographic downturn, most of our electors would say that the budget should go down if you are educating less children.

Sir David Normington: And that is what happens of course in the end.

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Q45 Chairman: Is it? On a previous occasion one of your members of staff told us that you could save 50,000 teachers' salaries. Because of the demographic downturn, are we going to see that sort of scale of saving?

Sir David Normington: I do not know if it is that scale, but it is certainly the case that primary school numbers have been falling and that is moving through into secondary. It is quite sharp in some places rather than others. It is not very sharp at all in London, and in fact there are some increases. It is a question of what you do with the money. The money does come out. If there are not the pupils there, you do not eventually get paid for them and that happens relatively quickly. The question then is: what do you do with that money? Up until now the Government has taken the view that you should put that back into the education system to improve elements of teachers' development or school development.

Q46 Mr Wilson: Sir David, can I just explore the impact of some of the new funding arrangements and go down into some of the detail. Can I refer you to the document which was sent to us by Jacqui Smith, the Minister for Schools, in particular, if you go to the section on school budgets where she talks about giving schools stability and certainty and under bullet point two where she talks about a single count date for schools in January. Now, I am not convinced that you have thought through the implications of this particular policy because, as I understand it, many LEAs have a three-point entry system particularly for reception children, which includes the Easter intake. For a three-point entry school, this could mean a projected deficit in the region of about £80,000 in the financial year 2006–07. Now, that would obviously cause severe financial difficulties and many schools would not be able to deal with a deficit of that sort, so really what I am asking you is can you clarify that? Am I missing something or has the Department looked at that in detail?

Mr Crowne: I think it is very important to distinguish two things here. One is that we needed to establish, and we have established, with a complete consensus amongst local authority representatives and school heads what should be the basis for us to distribute money to local authorities with DSG and we had to have a single consistent basis for doing that. Quite separately, the local authority then needs to have a basis for producing the pupil numbers that will guide the local distribution and what we are basically saying is that we need consistency at both levels. Whatever option you go for, and there is a wide variety of practice out there of local distribution, there will be some complications of the kind you have identified. The key thing is to get some consistency and then locally to work out how you deal with the complications. No system is going to be free of those complications. We have road-tested this and are road-testing this with a large group of local authorities. We are not finding that we are getting under-predicted consequences of what we are doing. The message coming back from local

authorities essentially is that these changes are manageable, but of course one of the key things we are doing for next year and the year after is testing out the basic elements of this new system and we will be reviewing that operation, but at the moment I think I can give you the assurance that, based on the work that has been done and the feedback we are getting, we think the system is manageable.

Q47 Mr Wilson: So you are setting up the problems for the LEAs to deal with?

Mr Crowne: Not at all. The local authorities already have the issue of how they count pupil numbers and how they deal with unpredictability and changes; they do that already. What we are saying is that we are trying to get to a system with more consistency in it based around really what is agreed to be the best practice in local authorities and that is actually well worth doing in its own right and local authorities have learnt a lot in this process.

Sir David Normington: It is just important to say that local authorities have been distributing money to schools for a long time of course and they will continue to. They are very familiar with these local patterns and they will continue to be. The reason for having a local distribution system is precisely to deal with these different patterns which impact differently in different places because there are a lot of different systems for when pupils are admitted and so on, but they are used to dealing with that.

Q48 Mr Wilson: The message you are giving me is that it is manageable and the message I am getting from schools is that it is not going to be manageable, so I think there needs to be some further thinking on that. Can I move you on to special educational needs because again that is an area I am particularly concerned about. For example, inclusion means that schools are accepting a growing number of children with very challenging behaviours and also disabilities. Currently, as I understand it, statementing allows 26 weeks for a statement to be issued and the statement currently cannot be backdated. Am I correct in saying that?

Sir David Normington: I think that is right, yes.

Q49 Mr Wilson: That means a child can be in a school for seven months before there is any support for that child and when a statement does finally arrive, there are only 20 hours allowed in terms of full-time support for that child. That means the schools are left facing a choice of either not providing support in advance of a statement being issued, which has a detrimental effect on the rest of the pupils in the class, or instigating large-scale cuts in other parts of the school. Now, that obviously is another massive problem and either the Government is going to fund properly inclusion or it is not and I would like to know which it is going to do.

Sir David Normington: Well, there is a lot of money going into supporting children with special needs and statements are only the top level of a system which provides different levels of support for children with different sorts of needs. I am not sure

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that the changes we are making actually make this better or worse. There is always an issue about how we get support to children with the greatest need and I would not say that the system is perfect, but I do not think that the changes we are making will actually make that different.

Q50 Mr Wilson: Why is there no backdating of funding with regard to these statementing issues? Seven months is a lot of money for a school.

Mr Crowne: The answer has to be that the process of statementing defines the entitlement of the child to the level of provision and the process of statementing looks at the needs and works out what is required in that case, but, as David has said, this sits on top of other monies which local authorities have a lot of discretion about how to distribute to deal with all of the pupils with lesser special needs who would not qualify for statements and indeed for those pupils who are going through a statementing process, and you are right, it can take some time. When you have got complex special needs, it takes understandably a while to work out what the right kind of provision is. I think the answer has to be that you have to look at the budgetary arrangements in the round and what we would expect local authorities to do is make sure that individual schools facing those kind of challenges do have access not only to the money that goes with the statement, but other resources for SEN which deal with those children for the statement date.

Sir David Normington: Quite a lot of that money goes to the local authorities so that they can distribute it. Obviously you cannot distribute it evenly among schools because it has to follow particular types of pupils.

Q51 Mr Wilson: In the responses to the written questions which we sent to the DfES, in response 1.4 it says that the base will be the 2005–06 spending total. Does that take account of money local authorities are spending on schools this year over and above the money provided by the Government?

Sir David Normington: Yes.

Q52 Mr Wilson: The £28 billion?

Sir David Normington: Yes, it takes that as the starting point.

Q53 Chairman: You will know, Sir David, that we are embarking on an inquiry into special education.

Sir David Normington: I do.

Q54 Chairman: One of the frustrations when we look at it is people who say that it takes so long to get a statement and then if they need an educational psychologist or, heaven help us, if they find they then need a different kind of psychological treatment, that is a nightmare area for most constituents. Of course perhaps the problem would be better if we saw more schools taking their share of SEN and problem pupils and I am sure you will have been as upset as we were by the Sutton Trust Report this

week where so many state schools, top-performing state schools take such a small number of such pupils at all. You may have been disturbed by that.

Sir David Normington: Well, of course I was not surprised by that. Of course it looked just at the 200 top schools, I think.

Q55 Chairman: Comprehensive and grammar.

Sir David Normington: Where 161 of which were grammar schools and 39 were comprehensive, so it is not really a comment on the whole system; it is a comment on the top-performing schools.

Q56 Chairman: You know very well that we said earlier this year in our Report on admissions that unless you grasp the nettle of admissions and make the code on admissions obligatory, not something you just take note of, you all the time will get schools, especially faith schools, dodging their responsibilities. You know that.

Sir David Normington: Well, we are going to say something about this in the White Paper. I am very familiar with the point. On the SEN issue, I actually welcome your study because I suppose that throughout all my time in this area, both before this as Director General for Schools and now, the issues that are the most difficult are the issues of special needs. We have always had people coming to the Department unhappy with the treatment they are getting and fighting for their children. It is distressing and it is very difficult to deal with. I understand that if you have got a child with special needs, actually you do not really care what the system is like, but you want the best for your children. The system sometimes involves parents having to fight the system and I think that is difficult and I am sure that is what the discussion will be about around this committee table.

Chairman: We will meet again.

Q57 Mr Marsden: Mr Crowne, I wonder if I can take you back to the schools forums which you were talking of a few moments ago. If the schools forums are going to have all these expanded responsibilities, where are the resources going to come from?

Mr Crowne: Schools forums have been there for a couple of years now. The best practice we have seen is actually for local authorities themselves to provide the services that they need relatively straightforwardly actually. What schools forums need above all is clear information and up-to-date data and in a form which is useful to them. They are not particularly labour-intensive operations.

Q58 Mr Marsden: That is what we have been told in the past about school governors.

Mr Crowne: I understand the risk you are alluding to. We have spent quite a lot of time talking to schools forums over the last few months because we have been keen to learn about what people's experience of them actually is and where they are perceived to be more or less successful. I think it is quite clear to me that where they are seen to be more successful, they are based upon a really open and supportive relationship with the local authority.

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Q59 Mr Marsden: You are not worried that in the wake of the inevitable scaling down of some local authority functions in the light of the Dedicated Schools Grant local authorities may prove unwilling or unable to provide those resources?

Mr Crowne: That is not what we are seeing on the ground. I would not say to you that every local authority is an exemplar of best practice, I do not think we can say that yet, but I am confident that there are now a substantial group of authorities within which the schools forums are doing an extremely good job and the relationship between the forums and the local authorities is a strong and good one.

Q60 Mr Marsden: Time will tell on the funding and the resources for schools forums, but I would like to press you a little further on some of these new roles or potentially expanded roles. Now, in your written answers to the Committee, the Department said that schools forums would be able to make minor changes to the operation of the minimum funding guarantee where the outcome would otherwise be anomalous. Can you give us any examples of what an anomalous outcome might be?

Mr Crowne: It is possible to think of situations, and I am desperately trying to think of one now, in which the way that the national, as it were, regulations work with the MFG is to produce a result which does not really fit local circumstances and that might be around small schools, it might be around big population shifts, it might be around where schools are being closed and opened, those kinds of situations where pupil numbers shift to a large degree from year to year, so it is those kinds of situations we are talking about. We recognise that the principle of the minimum funding guarantee is the thing really. It is about giving people predictability and stability. If there is a better way of doing that at a local level to deal with a particular set of circumstances, fine.

Mr Marsden: So taking the answers you have given, if you are going to have the potential for that sort of submission coming through, does this not bring us on to a broader question about the issue of how you actually define the validity of these arguments? Let's take, for example, the broader issue of an authority which, awarded this fair funding formula, says it should redistribute the resources, let's say, for instance, in terms of social need. Is that not going to lead schools to hit the buffer in terms of the minimum funding guarantee in circumstances in which presumably local school spending will rise and the Department will have to pick up the tab? Will that not cause a major problem?

Mr Crowne: We designed the system carefully to ensure that every local authority will have some headroom once it has met the individual school minimum funding guarantee.

Q61 Mr Marsden: How much?

Mr Crowne: It is at least 1% in every authority, so what we are saying is for 2006–07 and 2007–08 every local authority will have an increase of at least 5% per pupil. We do not yet know the level of the

minimum funding guarantee in each of those years because it will be dependent critically on the teachers' pay settlement, but if previous experience is anything to go by there will be a significant degree of headroom in each local authority.

Q62 Mr Marsden: If it were to be proven that that 1% was inadequate, would the Department within its current spending predictions be able to adjust it?

Mr Crowne: No. What we are saying is that is the absolute minimum for every authority. Many authorities will get more. The overall increase in each of those years across the country is 6%, so there will be some authorities on that floor but many will be distinctly above it. What we are saying is that the principle of the DSG is we will set a two-year budget for local authorities and it is for them to work through their local formula with their schools' forums to establish the best way of distributing that locally.

Q63 Mr Marsden: Can I put a final point to you which brings in a broader issue and Sir David might want to comment on it as well. To go back to what you said, you used various examples of what might be anomalous and I have also referred to social need. There is a question mark, is there not then, under this new streamlined system of pots of money concerning those issues which have currently or recently been recognised by the Department as being important but which do not currently find a place in the public funding formula? I am referring particularly there to the issue of transience and the effect of transience in schools. The Department had a couple of reports by Sally Dobson. There was an indication in correspondence to me and I know there have been indications in other correspondence from Ministers that the Government recognises the importance of that, but there is an issue about what that actually means. We can all recognise things but if we do not put our money where our mouths are in terms of the funding formula then it is not going to achieve a great deal. A point my colleague Rob Wilson made earlier on about a particular day being taken for the qualification number will have a particularly significant impact on those areas like my own in Blackpool where transience flows go very fast during the year. How are we going to cope with that? Will the issue of transience receiving special formula funding consideration be adversely affected by your streamlining?

Mr Crowne: I will take that first, if I may. I will deal first with the national distributions to local authorities. We did look very closely at this because, you are right, a number of authorities have said to us is it possible somehow to recognise in the national formula an element of transience. We looked very closely at that and the available data and we concluded two things. One is actually we could not find any databases for identifying authorities who face a particular set of challenges on transience when you looked on an authority-wide basis. It is quite hard to get a data-driven approach and of course we are committed to ensuring that our national funding formula is based on objective and data-driven

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criteria. A second point: that is not to say, of course, that those problems do not present serious challenges at local level and what we are committed to doing, and we have started now, is looking at the whole issue of deprivation and the manifestations of that. I see the issue of transience very much in that context and the Government is concerned to ensure that local formulae reflect levels of deprivation and the challenges that imposes for schools, many of whom are in deprived areas and face transient populations of various kinds. We are committed to reviewing that. It comes back to a point David was making earlier about formulae; you have to keep them under review to make sure that the way that they operate and the factors they take into account correspond with the realities that local authorities and schools are facing on the ground. That is not to say we are going to make changes every year but we do have to think about whether—

Q64 Mr Marsden: With respect, you have been making warm noises as a Department about the transience issue for at least two to three years and you have now had two major reports from Sally Dobson on the issue and all you are coming along to say today is that “we will keep the issue under review.” That does not sound very satisfactory to me. Have we a timeframe for when you are going to make some decisions?

Sir David Normington: We will not make any more changes until this next two-year period starting in 2006 is over and we will then be doing a review. I know it sounds as though we are brushing this aside. As we know, because we discussed it here before, the distribution of money from a national to a local level (which is not a new issue of course, it has been in the system all along) is highly complex and controversial, and to try to get a system which distributes the money fairly at a national level has been a constant issue over many years and all the time one is trying find the data that enables you to make the best allocation to local authorities. It takes account of rural issues, it takes account of deprivation, but we cannot make the national formula sensitive enough to deal with all these issues, and that is why there has to be laid over this a set of local decisions which take account of particular needs in the area. I know that sound like passing the buck but it is the reality of how a system of national funding has to work. It is why we cannot have a national funding system which in a sense distributes the money straight from us to schools because we cannot at a national level take account of everything that happening at the local level. Alongside that, the Government has over time introduced a lot of other grants. Some of that funding will continue in a separate stream although we will try to make sure, again, that it is not all earmarked money for specific things but actually the money goes out under a more general tag so that some of these local issues at school level can be dealt with. In other words you can decide what your local issue is and spend the money on it, all this within a

system where year on year school funding is increasing in real terms by about 6% over this period.

Q65 Chairman: So, Sir David, are the demands on schools? It is all very well saying that it is a very complex system and it is difficult to get a transformation into a new system, I understand that and you have our sympathy, but at the same time to give you three examples, just recently I noticed when Charles Clarke was Secretary of State he appeared before another Select Committee and said, that the lead role in education for sustainability is with the DfES. I understand that that is now accepted and you have a new policy on education for sustainability of the environment and all that. Does it come with a budget? Who funds it? Then you have the reaction to the Jamie Oliver thing. I have to say that nearly four years ago this Committee wrote a report on school meals so rather than anyone carrying it on in the wake of Jamie Oliver he rather carried it on in our wake. You have now placed another responsibility on schools which is an expensive one in addition to everything else they do. Indeed, who is going to pay for extended schools? If schools are going to open earlier and close at six, who is going to pay for that? Here are three new policies laid on to schools. How are they going to cope?

Sir David Normington: We will be providing extra money for extended schools of course, dealing with that one.

Q66 Chairman: How much?

Sir David Normington: I do not know. I can let you know but I do not know it off the top of my head.¹

Q67 Chairman: What about education for sustainability?

Sir David Normington: Well, I was going to make a general point.

Q68 Chairman: A general point evades answering the specific!

Sir David Normington: Yes, I will come back to the specific, if I may. I do not have an answer on education for sustainability.

Q69 Chairman: Make your general point first.

Sir David Normington: We do have a system which is highly devolved and for a lot of years now we have said that the school should be the budget-holder and should make the local decisions.

Q70 Chairman: Then you introduce the school meals, which is like Soviet Russia because you say they cannot have vending machines unless they are non-sugar and non-fizzy, and you tell them that they have got to have totally different new school meals. Here is a devolutionary government who suddenly says, “On this issue you will do as you are told and you will do it immediately”.

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Sir David Normington: Yes and we are putting somewhere approaching £300 million extra into the system to help them do that. What I was going to say was this is a system which is highly devolved. It is a system which both in capital and in revenue there have been huge increases so no school should be telling us they have not had those increases. We have to allow local decisions to take their course and priorities to be set. Quite often when we impose a further national demand on a school, as we have with school meals, we provide extra money. Sometimes—and I think sustainability is a very good example—if the school has the right policy we can support them on this. Sustainability is not necessarily going to cost them more, it may cost them less. We have a very, very big building programme and designing sustainability into that building programme is a key issue for us.

Q71 Chairman: I thought the Treasury stopped you doing that because it is too expensive.

Sir David Normington: It is not expensive to make sure you have the most efficient heating systems in new schools, for instance.

Q72 Chairman: Has the Treasury stopped you doing a lot of that work?.

Sir David Normington: I do not think so.

Q73 Chairman: You do not think so?

Mr Crowne: I am confident.

Sir David Normington: I do not think so.

Mr Crowne: In designing our space standards for schools and in the specifications that we are supporting through our capital programmes we are building in very good practice in sustainability.

Q74 Chairman: We are minded to look at sustainability for schools. What about the third one?

Sir David Normington: Remind me what it was.

Q75 Chairman: Extended schools. It is a big responsibility. Who is going to pay for all that supervision?

Sir David Normington: Well, there is a budget for extended schools and, if you like, I will provide you a note about it. I am not precisely sure what we have yet said publicly about it but we cannot expect schools to be open eight until six and expect all the costs somehow to be found by the school.

Chairman: Can we have a note on those three items?²

Q76 Mrs Dorries: Sir David, I would like to come back to a point the Chairman raised a moment ago about the top-performing schools taking less than their fair share of children with SEN. I do not have the figures with me but it is the case that a large number of excluded children from less well-performing schools have quite complex SEN needs. In addition to this, the evidence also shows that in the less well-performing schools once those children have been excluded—and in fact this is the reason for the exclusions being on the increase—the learning

environment improves. Is this not in itself evidence that funding should continue to go towards special schools and that the programme of inclusion should be reviewed and perhaps halted given the fact that the better-performing schools do not have their fair share and the less well-performing schools are suffering as a result of it?

Sir David Normington: I think investment needs to continue to go into special units and special schools. It is important that we try to design a system which meets the needs of each individual child. Sometimes that will be a special school. Sometimes that will be a special unit for particularly badly behaved children and that will be off-site. Sometimes that will be a unit on-site. We have put a lot of money into developing on-site provision. I think that some of the things that we have done in the special needs area to invest in special provision on-site in the schools is a very good way of going. We all have these anecdotes, but I saw a school which had a special unit for dealing with children who had various problems of deafness, and what you are able to do if you have those special units is you are both able to provide them with special support in the school and you are also able to enable them to join in with the other activities in the school as well. Clearly there is a need for some children to be in special schools. We do not have a policy of closing down all special schools and forcing those children into mainstream schools. We have a policy of trying to have special schools, special on-site units and also, where that is feasible, support for children in the classroom. It ought to be a mix of those things. I would really hate it if we jumped to one solution. We have to try to design this system for children of all sorts and, frankly, it does not quite match that yet.

Q77 Mrs Dorries: No, and in fact we have seen 91 closures of special schools in recent years. The on-site units which you are talking about, which are actually orbital units to the schools themselves where the children are treated separately, do not exist in very many schools. What we do see is inclusion within the classroom, which is not working in many many schools particularly in the area about which I have particular knowledge. A moment ago you stated in answer to my earlier question to you that you can see where funding goes there are better outcomes. I do not think you can make the assertion of those outcomes unless you have the evidence to back it up, but surely seeing the funding going to special schools is one of those cases where you can prove and do have the evidence that funding going into a particular area produces the right outcomes?

Sir David Normington: At the risk of repeating myself, I think you can point to very successful examples of children with special needs in mainstream schools in classrooms with support. I think you can point to successful cases of children who are in special schools. I do not want to be categorised as saying that there is one right solution. We have to try to do all these things. It is true that there have been closures of special schools but it is also true that there are a lot of special schools still and the policy of trying to build those schools as

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centres of expertise which can offer their expertise to schools which do not have that specialism is a very important policy too so you improve the capacity of schools which do not have special units to deal with children with disabilities and special needs. Can I just say I will not have the suggestion that we are closing down special schools as a matter of policy. I will not have the suggestion that inclusion is the wrong policy. Sometimes it is the right policy. We have to try to design the policy for the parents and the children. It will not always be right for them to be put in a special school.

Q78 Mrs Dorries: You have just made the point that special schools provide training to the teachers at the schools with inclusion, but actually that is a major problem that because of the 91 closures of special schools there is not the training, there are not these centres of expertise. They are reducing the number of centres to help those schools with that training. I know of many schools where the teachers cannot get any assistance or specialist training because the number of teachers who have that experience is dwindling because those special schools are closing.

Sir David Normington: I do not think over a lot of years that it has been the case that special schools have provided their expertise to mainstream schools. I think that is what we are trying to do. I agree that where special schools have been closed it is just a fact that they do not exist, but our policy is to build up special schools as centres of expertise in a way that they have not been before, so I do not think we come from a time when the schools did offer enough help to children who were in mainstream schools. So that is what we want to do. Can I come back to the on-site units. It is true that they are not everywhere, but we have been trying to support the development of on-site units which both provide support to that school but can also support other schools. It is another way of doing it. However, the system is not perfect and I would not dream of saying it is.

Q79 Mr Williams: Just to clarify the answer to a question Rob Wilson asked right at the end of his series of questions, to make sure I understood the point about the new funding arrangements. You said a couple of times in your remarks earlier that the new funding arrangements took schools funding out of local taxation. I hope I am quoting you correctly there. Does that mean that the funding that the Department will give to local authorities will reflect what, when I was a councillor, was called the SSA or will it take into account the excess spending that many local authorities do on top of that? Bristol and Avon have all spent well above the SSA. Will the new grant that goes directly to the authorities from the Department take into account that discretionary spending?

Sir David Normington: Yes, it starts from the basis of what is being spent.

Q80 Mr Williams: So that anomaly will be removed?

Sir David Normington:—which is very important. I should make one qualification. As I said before, it will be possible for local authorities to continue to

raise local taxation to supplement what is coming from the dedicated schools grant. Whether they will decide to do that I do not know but it will be possible for them to supplement the national financing.

Chairman: We are going to move on to efficiency savings. I apologise, Sir David, I should have said I have a particular interest in education for sustainability. If you look at a particular article in *The Telegraph* yesterday you will have seen that, and I should have declared that interest.

Mr Evennett: A very good article too!

Q81 Mr Evennett: First of all, we are having rather mixed messages from you today, Sir David, about centralisation and devolution and I am concerned. I personally am more into power to schools and localities and I am very concerned about the areas we have had heard about so far. We must go on to efficiency savings. Obviously you are very aware of the government initiatives to cut down the number of civil servants to make them more efficient. Also following the Gershon review your Department has got to deliver a huge amount of annual efficiency gains by 2007–08. I believe you are on the record as saying that two-thirds of that saving of a large amount of money will come from the schools sector, and it is obviously of concern how the schools are going to manage. What advice are you going to give them to do that if we are going to have those huge efficiency savings within a few years? Would you like to comment on that first of all?

Sir David Normington: May I make one preliminary comment which is there is an issue about reducing staff numbers in the Department for Education and Skills which we are doing. I will talk about that if you like. Inevitably that is quite a small amount of money. The big amount of money is obviously somewhere within the £60 billion that is spent on education and the big efficiency savings come from getting better outcomes or greater efficiency from the use of that money. We are committed over three years to producing £4.35 billion efficiency savings. That is the first thing. The second thing to say is that it is true that we are looking broadly to the schools sector, which, after all, is the biggest consumer of resources, to produce those savings, but it is important to understand that what we are looking to do is to give them more headroom in their budgets, not to take money away from them. This is not about taking money away. If I can just take a small example, but a real one. We are looking to see how we can reduce the cost of school insurance. Indeed, we are looking across the whole area of procurement policy in the education system to see how we can get best value for the things that everybody has to do. If we make those savings, what we will do, effectively, is negotiate a number of national or regional contracts which hopefully will lower costs. It will then be up to the school to make use of those, but any money they then save will be kept by them. This is not about taking that money out. Similarly, a substantial chunk of money comes from the more productive use of the school workforce. There are very big changes happening in schools in terms of how they use their workforce, designed to relieve

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teachers of jobs that are not about the core job of teaching and learning, and getting those jobs done in a more efficient way, either by technology or by other staff and so on and thereby releasing productivity in the system. We are very well down that road this year and that will release real resource for the school. We have some real examples of how we are doing that. I am sorry it is a long answer but a lot of the savings are in helping schools to make more of the money they have got, not taking money away from them.

Q82 Mr Evennett: Again, it is centralisation, is it not? It is you telling them rather than leaving it to localities and schools themselves?

Sir David Normington: I do not think so. I think local authorities do this too and we will be working with local authorities as well. To go back to the school insurance example. We will not be telling them who to use for insurance. We will just be telling them that there are these deals that we think will lower the cost.

Q83 Mr Evennett: I did not mean that side, I think they are excellent. I was talking about how they use the staff within the school. Of course it is excellent to go for the insurance because you have the expertise in your Department which presumably the schools or local authorities will not have. However, if you are talking about what jobs should be done within schools, is it really your role?

Sir David Normington: I think what we are trying to do is encourage schools to think differently about how they use their total workforce. Again it is up to them. I need to give you a specific example, if I may, just very briefly. We have a very good case of a secondary school which I will not name, which through the process that I am describing of getting them to think again about that workforce modelling and how they use their workforce, has decided they will try to stop using supply teachers altogether and they will take that budget (which they discovered was £200,000 on supply teachers which was not very productive and was not very efficient for them) and employ three more trained people called “cover supervisors”, to ensure that if a teacher is away they can get somebody who knows the school and its ethos and rules into that classroom and make sure they are supervising the work. That has cut the costs for them and they have saved money. They are absolutely delighted with how it has brought better order to their school and they think they are getting better use of the workforce out of it. There is real benefit there. One thing we have done here is we have got a national remodelling team, a team of expert people usually drawn from schools, who are supporting schools who are finding it difficult to think this through. Lots of schools do think this through. The one I described decided this itself and saw this itself. There are lots of good models like that to spread round the system. That is of real benefit to them.

Q84 Mr Evennett: What you are really saying is that you are going to give advice but you are not going to impose and that the cuts that there may be (or the efficiency savings) will not have an impact on the education?

Sir David Normington: I have to account then for whether we have found the £4.35 billion, so there is the issue of—

Q85 Chairman: How much is that per school?

Sir David Normington: It is 2.5% of the total budget. I do not know what it would come down to for an individual school. I would not expect it to be the same in every school.

Mr Kershaw: It is across the whole system, not just schools of course.

Q86 Chairman: And what savings would you expect for an average comprehensive school of 1,500 pupils?

Mr Kershaw: If you said that about a third of the savings (efficiency gains, not cuts) were coming from the schools sector, that would be £1.5 billion or so in year three. You would have to divide that by 20,000 schools. I guess you are going to have to do some complicated weighting for large secondaries as opposed to very small primaries. It is quite a complicated sum to do.

Q87 Chairman: There is an army behind you there.

Mr Kershaw: I think someone will have to get their calculator out!

Q88 Mr Marsden: I would like to take up two issues. Perhaps first of all I could just speak about your administration costs. The Department's Annual Report says that staff numbers will have reduced by 31% from 2003–04 to 2007–08 but your annual administration costs only appear to be £6 million lower, in 2003–04, £243 million and 2007–08, £237 million. Why do you not expect to make a greater saving?

Mr Kershaw: Because there is a short term and a long term issue here. In the short term, of course, we have had to use and invest some of our existing running costs over this period in voluntary release schemes and so on for folk who are leaving. That is one of the ways in which we have managed to secure quite significant staff reductions without compulsory redundancies. That has had to be paid for over the next couple of years. In the period ahead you will then see some quite significant reductions in our cost limit because then of course the returns really come in in terms of a much smaller number of staff. I think you are just describing a transitional arrangement. In the short term we have to fund the staffing reductions of some of the people moving on and out. Longer term it will represent some quite significant savings.

Q89 Mr Marsden: What sort of anticipated savings on administration costs could we see in 2009–10, for example?

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Mr Kershaw: I think it is quite hard for us to predict that at this stage because that depends to some extent on the next spending review and we will get into trouble if we pre-empt that kind of negotiation.

Q90 Mr Marsden: We can guess can we not, that the next spending review, at least in terms of all the press comment, is going to be rather severe and therefore the impetus for you to make administration cost savings will be rather great?

Mr Kershaw: It will and I think we can expect a very challenging conversation with the Treasury which will be about demonstrating that those savings have been played back into the front-line and also about efficiency gains in terms of money that is already at the front-line, as Sir David has said. This is the area where we will need to demonstrate we have used that money in a quite different way and we have got it out through the funding system either into schools or further education or wherever; so I think you are right, that pressure will be on us very directly.

Sir David Normington: We are expecting to save over this period and it is right that we have to invest to save this. This does not get reflected in this three-year £21 million reduction in our admin costs in 2005–06, £21 million in 2006–07 and £44 million in 2007–08. We would expect in the period beyond that to see the full savings that we are making in the three-year period reflected in our annual cost budget. The Treasury will not let us get away with it.

Q91 Mr Marsden: Nor will we, I suspect.

Sir David Normington: Even more so, I do not suppose you would either, nor do I want to.

Q92 Chairman: Sir David, we will be watching you very carefully. We do not want any “Del Boy” tricks, a Trotter approach to this, what we usually call “smoke and mirrors”!

Sir David Normington: I have been called many things but Del Boy is not one of them!

Q93 Chairman: But you take my point. We do not want to see these savings—and it is not just Gershon, it is the Lyons Report too—I have to say, I do not know about my colleagues but I have not seen many civil servants from your Department moving out, I have not seen a substantial number coming to Huddersfield and setting up there because it is much cheaper and more pleasant to live there or Barnsley or Guildford and other places but I have not seen it. Quite honestly, most of us do not think the Lyons thing is working at all. Why has Ofsted not moved out yet? Why have we not seen some really significant changes out of this overheated London and South East to places where graduate employment will be very welcome. Why has it not happened?

Sir David Normington: You will see 800 posts—

Q94 Chairman: 800. Out of how many? Why do we not have a substantial number? Why do you not say this Department could do even better with the move of a large number of civil servants out of London?

Sir David Normington: We have done that. The majority of my Department is already outside London.

Q95 Chairman: Where are they?

Sir David Normington: They are in Runcorn, Sheffield and Darlington. The majority of staff are outside London. It is the minority of staff in London and I am committed to moving more outside London. We are also committed to moving the remaining NDPBs, the QCA and the TTA, out of London substantially. That is all on the record. That is what we will do. However, in the meantime we are also reducing our staff and I think, just to put this on the record, I have 760 fewer staff than I had two years ago. Ofsted are reducing by 500 in this period. These are real job losses, they are happening.

Q96 Chairman: Okay how much outsourcing are you doing? For example, I know Capita have got a big contract from you and they immediately announced that they are shifting much of their work to India. I have to say that both the transfer of responsibilities out of government out of the Department to Capita and then to see them get transferred out of this country seems to me a Del Boy sort of tactic. You might say we have got less people working for us but you have outsourced them. How does that account?

Sir David Normington: Those figures do not include the Capita contracts. They were there before.

Q97 Chairman: Are you pleased they are outsourcing to India?

Sir David Normington: I do not think I know precisely where they are outsourcing to because the main contract—

Q98 Chairman: It has been in the newspapers, Sir David.

Sir David Normington: Yes I know, but the main contracts that they run for us they run from Darlington where they have built up their employment since the outsourcing of the teachers' pension scheme a few years ago. The other contract they run is a contract about school improvement which is about employing a force of local advisers to support schools in Key Stage 3 particularly. You cannot off-shore that. They are all in this country. So I do not think in the contracts they run for us—and I stand to be corrected—there is major outsourcing to India.

Q99 Chairman: What about sector skills councils, why do they predominantly appear to be in London and the South East? They could be anywhere. You hear rumours it is because the chairman lives somewhere. What sort of basis is that, that you have a sector skills council in London and the South East because of the convenience of the chair? It is probably the wrong chair if that is the case. Why are the sector skills councils not distributed around our country?

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Sir David Normington: I do not think I have a full list. I could provide a full list of where their headquarters are.³ The Sector Skills Development Agency, which is the one I do control, is between Rotherham and Sheffield.

Q100 Chairman: You give them a budget, do you not?

Sir David Normington: Partly although they are mainly employer-led bodies and therefore they really ought to be in the places where those industry sectors have their main focus. I am not sure they are all focused in London, some are.

Q101 Chairman: Can we have a note on that because, seriously, some of us are very disappointed about the speed with which the Lyons Review is being implemented.⁴ When we come back to Gershon we are concerned and worried because on the one hand we want good quality administration in your Department and if it came to it we would defend you against the cuts as long as you can prove to us we are getting value for taxpayers' money. You have got to be honest with us, Sir David, and if you want us to defend your position we will do it but we are not going to put up with what I have called "smoke and mirrors" where Gershon is there and the Lyons Review is there but we do not see much change.

Sir David Normington: I would like you to support the changes we are committed to. I do not want you to defend me against the efficiency savings. I think they need to be made. I think any organisation ought to be able to find this level of efficiency savings. I am completely committed to reducing the size of the Department. It is part of the conversation we had earlier about doing less at the centre. I would like support for that. We are halfway through a programme of reducing the DfES by 31% in staff numbers. That is my figure, I put it forward, and I am very happy to defend it to anyone, including my own staff.

Q102 Chairman: And the qualitative change that both the Prime Minister and the Tomlinson Report wanted that you became a more strategic Department; that really is working?

Sir David Normington: I believe it is working.

Q103 Chairman: What is the evidence that you are more strategic now than you were a year ago?

Sir David Normington: It is not a finished task. I can describe quite a lot of examples. We have had a lot of conversations about school budgets where we are trying to devolve decisions to a local level and to do less at the centre. I do not know whether you want me to go into specific examples but I can do if you like. I will take just one.

Q104 Chairman: Sir David, the worry we have is here you are diminishing the role of LAs, local authorities in education, and you are devolving to schools,

which pulls a very important centralised responsibility onto your Department at the same time as you are going to be more strategic and cut down your numbers. Sometimes that all just does not seem to add up very well.

Sir David Normington: I think it does add up perfectly because what we are trying to do is to put the schools at the heart of the system and only put in place above and beyond the schools those functions that can best be done there. I think schools get a lot of burdens placed on them from a great superstructure of organisations which often send out lots of communications to them, including us. We are trying to cut all that down. Part of that is taking out the admin costs at local authority level, at NDPB level and at departmental level. I would defend that to anyone because it must be better for the schools.

Q105 Chairman: Some of us look at one particular part—post-16 education—and see this enormous growth of the learning and skills councils. This is a very large empire and the word on the street seems to be that soon you are going to have a parallel body to the learning and skills council for schools because you are going to have to create some sort of intermediary. Is that a realistic fear?

Sir David Normington: No, I do not think that is going to happen. I do not have a plan and I do not think we have a plan at all for putting another body in place between us and schools. On the Learning and Skills Council, of course they have just announced they are going to reduce their staffing by 1,300 from 4,700 to 3,400, remembering that includes their head office and all their 47 local offices, so that is quite a big cut. This is happening, it is real, and the difference will be felt.

Q106 Mr Marsden: I just wanted to comment and ask Sir David on the point about the Learning and Skills Council—and I speak as one of the people who sat on the original Standing Committee on the Bill that set it up—one of the problems with it is that it has been too centralised and it has not been devolved sufficiently and not had key strategic people in the regions making decisions in relation to the LSC. In relation to the broad point that the Chairman has been making, would it be possible—and you refer to your commitment to moving posts out of London and the South East—for you to give this Committee a list of the people who have so far been moved out of London and the South East, who you expect to be moved and out and, perhaps most important of all, what their grades are?

Sir David Normington: I do not know I can do the grades bit but I can certainly give you the numbers. I do not think we have in detail all the grades but I will do my best to answer you on that.⁵

Q107 Mr Marsden: You appreciate why I make the point about grades because we are talking about strategic devolution as well as nuts-and-bolts devolution?

³ Ev 31–32

⁴ Ev 31–32

⁵ Ev 32

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Sir David Normington: I understand that and I will try and give you as much of that information as possible.⁶ The Learning and Skills Council though, just to pick up that point, would accept your criticism that it has been too centralised. The agenda it has just announced is all about having effective regional input and more effective (strategic if you like) people at local level, and certainly people who can engage at the right level with colleges but within the overall envelope of reducing the total number of staff. So they are on that case quite hard.

Q108 Mr Wilson: You might not be able to answer this question now. It may be something you can add to the note you are going to send the Committee later on. You say you are making substantial job reductions. I would be very interested to see whether your expenditure on consultants and contractors and other forms of temporary work arrangements is increasing as a result of the staff reductions you are making and whether there is any real reduction overall.

Sir David Normington: I do not have the precise figures but I am very familiar with the point about consultants. I am not in the business of increasing expenditure on consultants to mask the cuts in civil servants. That is not what we are about. I will certainly provide you with what detailed information I have.⁷ I want to say one thing about consultants and that is there are consultants and consultants. We employ quite a lot of people from the education system—schools, colleges, universities—on short-term contracts to help us with particular jobs. They are often categorised as consultants. They are not consultants in any normal sense of the word. It has been a big drive of mine to have many more of those people helping us short- and long-term so we can change the nature of the Department. I will explain this in the note.⁸ It is really important that they do not get cut off. If they are coming out of their school for a day or two obviously we have to reimburse them for that. There are quite a lot of them. Then there are the other consultants as well, what we might call the “real” consultants, and sometimes it is important to use them, they have a place. I do not think it is acceptable to use them as a way of getting round efficiency savings and in any case we are having built into our budgets cuts in resources, so that ought to stop us doing that anyway. I am quite clear about this. We have just been audited. The National Audit Office have looked at this. We have produced our own booklet with the National Audit Office on this so we are completely on this case.

Q109 Mr Wilson: You say in your written answers to this Committee of the DfES that “our efficiencies are in the main efficiency gains”, which to me sounds highly dubious, being the sceptic that I am about these things. Could you be specific about how it is

going to be apparent to either this Committee or the public how you are going to make those £4.3 billion-worth of savings over the 2004 figure?

Sir David Normington: I will ask Steven just to come in but I promise you we will be absolutely transparent about this. We have put on our website our whole plan of how we are going to achieve this and we will publicly account for it. A new system is being set up through the National Audit Office to check this.

Mr Kershaw: The first thing is that we have published a technical note (which I think the Committee has had and your adviser has certainly seen) which sets out in considerable detail the 40 different strands through which we are going to try and achieve our efficiency gains.⁹ The point about efficiency gains, to re-emphasise, is that this is not about cutting resource out of the front-line. All but £261 million of our £63 billion spend is front-line funding now, so it is not about cuts out of the front-line and that is what we mean by saying it is efficiency gains. It is freeing up the system and using its existing resource in a range of more powerful ways. The point about producing a technical note is it sets out the different strands, it explains how each one will deliver efficiency gains and in some cases real efficiency savings of one kind or another, it says how we are going to monitor that, and what kind of data we will need from the system and in other ways to demonstrate it. All of that has been agreed and validated with the Treasury, the National Audit Office and the Office of Government Commerce. In each case it is said how we will publish the data about how we have got on. So there is a huge body of information there about how this is going to be done and how it will be published and made transparent over time. Some of that the Department itself will do, some of it will be cross-government and will be done with the Treasury at various points. I think there will be a considerable amount of information over the next few years about how we have made progress against each of these strands.

Q110 Mr Wilson: Can I just be clear about this, that the National Audit Office will effectively be the external evaluation of the efficiency savings?

Mr Kershaw: Yes.

Mr Wilson: Excellent.

Q111 Mr Chaytor: You have a target for stopping young women from getting pregnant and for stopping them smoking during pregnancy and now you want to ban their children from eating sausages. Are these the right sorts of priorities in the public service agreement targets?

Sir David Normington: I do not think we have a target for sausage eating. Sausages are fine if they are made from the right things.

Q112 Chairman: There is no target for a reduction in junk food?

⁶ Ev 32

⁷ Ev 32–33

⁸ Ev 32–33

⁹ Not printed.

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Sir David Normington: Not yet. I think this is quite an interesting question. We have some trouble measuring that progress. However, since we are in the business of protecting children, we know that they are protected if their mothers do not smoke during pregnancy so we are entitled to have a public policy about that. It is very difficult, as you can see, to measure progress to it. I think that it is right to have that up in lights. Even if I did not think that was right it is Government policy to do that. I think similarly with teenage pregnancy, it is a very serious issue for this country. Compared with most other countries we have one of the highest rates in the world and the consequences for those children and families of course go on from generation to generation sometimes and I think the State is entitled to take a view of that and, through persuasion, to try to persuade teenagers not to have early pregnancies. That is all I think you can do; you can persuade, you can advocate; you cannot stop it.

Q113 Mr Chaytor: You do not have a PSA target, for example, relating to school admissions and compliance with the current kind of practice or number of appeals that are referred to the adjudicator? In light of your comments earlier about the forthcoming White Paper and the role that admissions policy might play in that, do you think there may be an argument in the next round of PSA targets for including something specifically on admissions?

Sir David Normington: I do not know, I doubt it. What we have been trying to do is to focus the high-level targets on outcomes and I would not really want to move us to inputs and process. I think we have been able to move to outputs. Where I think your comment is interesting is if you take the schools standards. Some of what we have done in recent years is to look at value added, in other words, who goes into school at 11 and what their achievements are and where the children get to at 16 or 18, which takes account of the type of children and where they come from and what their entry point is. That is how I think if you are going to use inputs you should use them. It is a more sophisticated measure than an absolute outcome target, but I would not want to move to input targets. I think it is right for us to have underneath these headline targets a series of indicators about how things are doing, so you could have indicators for other issues.

Q114 Mr Chaytor: On the question of outcomes, not all the PSA targets are specifically to do with easily measurable outcomes. For example, if we look at PSA target 14 on participation in higher education, there is a figure for increasing participation but then it says and “we will bear down on rates of non-completion”. “Bearing down” is not exactly an outcome is it?

Sir David Normington: Of course you pick on the one that is not an outcome-based target.

Mr Chaytor: There are one or two others.

Q115 Chairman: And you tried to achieve 6 out of the 11?

Sir David Normington: Well, it is of course true that some are still process targets because it is very difficult to get an outcome target for higher education and we thought we needed some way of measuring—

Q116 Mr Chaytor: The rates of non-completion are specific targets, are they, in the 10%?

Mr Kershaw: Can I just say that underneath the PSA again is another version of a technical note for each PSA which says in a lot more detail how different components ought to be measured. So, you are right, in its own terms that is a fairly broad and non-specific target. “Bearing down” is a rather vague phrase but the technical note underneath sets out in more detail what that actually means.

Q117 Mr Chaytor: Could I just ask something on the question of success or failure of the targets. About half the 2002 targets were not achieved. Do you take that as evidence of poor performance of the Department or of poor target setting?

Sir David Normington: I have to take my share of responsibility for not hitting the targets. After all, we accepted the targets in the first place and when we set them we believed we would get towards them or closer to them, so I have to accept my responsibility for that. I do not think I ought to say otherwise. You have picked on two which I think are very difficult targets—the teenage pregnancy and smoking in pregnancy target. I think it is very difficult to make as fast progress there as we need to in the target. I think there are some targets that are particularly tough. I will give you another one. The GCSE target was a 2% increase a year. There has never ever been a year when there had been a 2% increase in a year. So actually that was a really tough target and we have not hit it. We have increased year on year but we have not hit that 2%. Yes, I think it was a tough target, probably too tough actually, but nevertheless the targets do provide pull through the system and are important for that purpose. I go right back to the beginning of the conversation which says what is half-full or half-empty. We are 6% short of the target on Key Stage 2 literacy. We are up 17%. I think the targets have pulled us up that much by providing that ambition and focus but, no, we have not hit the target yet.

Q118 Chairman: What about truancy; are you missing or hitting your target? There has been a lot of press coverage of that one.

Sir David Normington: Of course our target is about attendance and we are on course to hit the attendance target. The reason it is about attendance is because of course what is authorised and unauthorised absence, which is what lies underneath this, is subject to local decision. All the advice we had from the system was you should measure who is at school and try to increase the number of people at school and the time that they are spending at school, and we are on course to hit that target.

Q119 Chairman: So the coverage in the press is wrong?

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Sir David Normington: The press is not wrong on that. Beneath that, unauthorised absence has been increasing a bit. I would say the reason for that is partly—and truancy is a problem and no-one denies that—is because we are asking head teachers to bear down on unauthorised absence, and therefore they have been refusing to authorise it. We have quite a lot of evidence of that.

Q120 Chairman: Is there a stage where you say we have overdone the targets because targets do pull and they pull away from other things. When you go to schools, teachers say “not another target”. David Miliband used to boast that he did not introduce any new targets during his entire time as Schools Minister as a bid for fame.

Sir David Normington: I think there could come a point where you should move on or decide not to have targets. I think you should always have some targets. I do not think we have to have the same targets year in year out. I think that public services, like any other service or any other industry, ought to have targets and ought to be judged against them, but there is always the danger that they will have a distorting effect. I think you should think very carefully how you convert a national target into school level targets. In this phase we are not going to convert every national target into a target on schools. We are only going to bear down on a school where we and it has agreed it has a particular issue it needs to address and focus on that because I think it becomes too complicated at local level to focus on all the things.

Chairman: We are not criticising targets, especially teenage pregnancy and many of the others, but one does hear about too many targets at the front-line. Can we now move on to further and higher education. My friend and colleague has been entirely uncharacteristically saint-like in his patience.

Q121 Jeff Ennis: Patience is a virtue. Sir David, do you stand by the argument put forward in the Government’s response to the Committee’s Report last year that the funding gap between schools and colleges is closing? Is it 7% this year as forecast? How do you respond to the Learning and Skills Development Agency’s research suggesting that the gap is over 13%? What is the reality of the situation?

Sir David Normington: Well, I am aware of that. We think on our figures that it is narrowing and the LSDA research suggests it is not. The truth of the matter is whatever the precise figures it is not narrowing very much and has not really narrowed. We believe on our measure it has narrowed slightly but the gap is still there. I do not think we think it is quite as big as the LSDA but there is a sizable gap there.

Q122 Jeff Ennis: This is obviously a major problem for our authorities based on tertiary college systems. It was about 18 months ago that a previous Secretary of State, Charles Clarke, told this Committee he thought that over the next five years—and that was 18 months ago—that that gap would close. We are now down to three and a half

years from what Charles said at that time. Are we going to close the gap in three and a half years from now?

Sir David Normington: I do not know if we will close it. We still have an intention of narrowing it and we have not given up on that. Some of the things we have been doing—

Q123 Jeff Ennis: We have not got a target to close the gap, to go back to the previous line of questioning?

Sir David Normington: Charles Clarke clearly made that commitment. I do not think it is a formal target but we will have more to say about this in due course. I think we have been giving priority to school funding and we have been protecting school funding and that has made it difficult at the same time to close the gap. There is no doubt about that. We have made less progress than we would want in that area.

Q124 Jeff Ennis: As I say, it is really important in local authorities like Barnsley and Doncaster. I will give you a classic example: the over-achievement of student numbers in sixth forms. As I say, we have got almost a complete tertiary college system in Barnsley. The local college recruited an additional 100 students in the sixth form. As you know, the levels of staying-on rates in Barnsley and Doncaster are below the national average and we have got a target to get them up to the national average, which I am sure you would support. The LSC agreed with the target to be given for that particular year but they said they would not fund those additional students. If that had been a school sixth form there would have been no question of funding those students, that funding would have been there on the table. How are we going to get round problems like that which are causing real difficulties in Barnsley and Doncaster and other authorities which are based on the tertiary college system?

Sir David Normington: Well, I recognise that description of what happens. As I say, within a limited funding pot we have been putting money into schools rather than into colleges. We have been increasing unit funding for colleges but nothing like to the same degree. The reason I am being a little hesitant is because we have a series of announcements in the next few weeks right through into November which will be about LSC funding, particularly about the priority areas like 16–19 funding. We have an announcement in due course about finalising the school budgets. I am hopeful that out of that we can address some of these issues. Of course, you can only do it within an overall funding envelope and that is ultimately what has stopped us closing this gap. That gap was there and it requires more resource than we have had to close it.

Q125 Jeff Ennis: But the current envelope, Sir David, means that school sixth forms can recruit as many sixth form students as they can *ad hoc* but tertiary colleges are limited and they are being penalised. Students in Barnsley are being penalised

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and, after all, we are trying to increase the staying-on rate in deprived areas like Barnsley. We are penalising tertiary colleges from recruiting students into sixth forms?

Sir David Normington: We would like to see this problem that you describe being tackled and I accept we have not done so yet. I hope some of the things we will be doing in the next few weeks will help at least.

Q126 Chairman: I hope the message goes through. The great failing, it seems to me, over these last eight years of the Government's policies is that we still seem to reward the "haves" in educational terms and not the "have-nots". It is true what was said about the Sutton Trust Report yesterday. The social mobility argument that came out in research done by the London School of Economics. It still seems that we have not made a dent on transferring resources to those people who have not had the chance of a decent education in the past from those who have everything. This is the argument that Jeff Ennis is making, that it is crystal clear in Barnsley that there is an immense prejudice against those people who have less chance of getting a stake. You said at the beginning of this conversation this morning that where you have not been doing as well as you could is at post-16.

Sir David Normington: I actually think the Government has put a lot of extra resources in various ways into both people from poorer families and also into areas—

Q127 Chairman: I was speaking to Peter Lampl of the Sutton Trust yesterday and he said the real problem still is the goodies in education are distributed unfairly. That is the central problem that this Government has and it still has not faced up to that.

Sir David Normington: There are two issues here: the money that we distribute for schools has a major factor in for deprivation, and that has been increased over this Government's life. That is the first thing.

Q128 Chairman: Is it working?

Sir David Normington: That is true. Secondly, there is a specific issue, and I am putting my hands up to that, about the gap between sixth form funding and further education college funding.

Q129 Chairman: You can put your hands up but you do not seem very repentant. What are you going to do about it? You have got three and a half years, why is the gap not going to be closed? You have not said a word this morning saying, "Yes, we are going to put it right".

Sir David Normington: Our aim is to close that gap, as Charles Clarke said. Over the next few weeks we will be saying something which I hope will help in that direction but the Government has decided to give priority to school funding rather than college funding. The other thing I was going to say was we have been increasing funding to colleges and we have been increasing the funding to 16–19 provision in colleges and to some of the priority areas for adults, like getting everybody up to Level 2. There have

been substantial extra resources, but because substantial extra resources are also going into the school system that gap has not closed. Overall both sectors have had substantial extra resources and we are completely clear, particularly in the phase when we were concentrating on 14–19 education and training, that this is a major issue for us.

Q130 Jeff Ennis: It is linked in with the SEN issue of further education. There have been examples of institutions having to close or severely restrict courses for adults with learning difficulties and make staff redundant because they are no longer included in the Learning and Skills Council's funding priorities. What is the DfES's view on this? Should education for adults with learning difficulties not be a priority?

Sir David Normington: Yes. We have a major priority which we give to the LSC related to basic skills which includes people with particular learning difficulties. We have put huge extra funding into improving basic skills, so I am a little surprised at that. It should not be the case that we are seeing large amounts of that provision closing down. I would have to look at the individual case.

Q131 Jeff Ennis: You would look at that?

Sir David Normington: I would happily do that, yes.

Q132 Stephen Williams: Can I link us back to another target, the Government's target of 50% participation in higher education and how this links into that. Over the summer I have been around the FE colleges, Bristol City College, one of the largest in the country, and St Brenda's, which is the largest catholic one, and the number of people who take A-level courses at those colleges dwarf provision by any sixth form, but their social intake is broad while the sixth forms, as the Chairman has just alluded to, are largely middle class. How is this disparity in funding, which you recognise but do not seem to be setting a target for bridging or closing completely, contributing in an adverse way to meeting the Government's target of getting more people from disadvantaged backgrounds into higher education?

Sir David Normington: I have admitted that there is this funding gap and what you say about the intakes of sixth forms and further education colleges is broadly true, although it varies. Obviously sixth form colleges are in a different position from general further education provision. I think we are very aware of the issue. I said earlier that we are increasing resourcing for both sectors but we are not closing the gap very much, and I accept that, and I think the Government accepts that. When ministers have come here, as Charles Clarke has, they accept that we have to try to make progress here. I am saying to you we have not made enough progress and I agree that in order to encourage more people from the lower socio-economic groups to gain A-levels or vocational equivalents you have to support them in that. Many, many of them do that in colleges. I am saying that we have to try to close that gap or make substantial progress in that direction, I agree with that, and we have not done so.

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Q133 Stephen Williams: Can I make another point about widening participation, students who are in higher education, particularly part-time students. The Act of 2004 treats differently full time students and part-time students. Are there any plans to have similar funding arrangements for part-time students who are in higher education and also to give part-time students themselves the same financial support that a full time student now gets under the top-up fees regime?

Sir David Normington: I cannot say that today but we are very aware of the issue and the Minister is having a serious look at it. It is a disparity at the moment in the way funding works and we are having a serious look at it.

Q134 Stephen Williams: When might we hear the outcome of this serious look?

Sir David Normington: I cannot tell you for sure, I am afraid that is a ministerial issue. I can tell you for sure that is being looked at.

Q135 Tim Farron: I am sure you are aware that 27% of pupils, students of further education colleges, come from the poorest 15% of wards in the country, so the funding gap clearly does exacerbate the problem and flies in the face of the Government's stated widening participation objectives. That point being made, I want to come back to the issue raised earlier with regard to the LSC priorities. I wonder whether the Government has made any consideration of the likely impact on the viability of courses counted under other provision of adult education in setting and revising the new LSC priorities and, if so, what is that likely considered impact?

Sir David Normington: There is about to be another statement about this because we are about to allocate money to the LSC for the next period, and also at the same time we will be setting out the priorities which the Government believes this sector should have. I think that already there is built into the assumptions for some of the other provision an assumption that there will be a large contribution from the individual to the fees of that course. I think previously the assumptions were that the Government would fund in its funding formula 75% of the cost with the expectation that fees would raise 25%. We have put that up to 27.5%. I referred to this earlier. I think this issue of who pays for what courses is quite an important issue for us, accepting that the Government will always seek to protect and support those who cannot afford to pay. That is an issue that is very much being debated at the moment and very much affects the other provision, which is not a priority in a way for the Government compared with its other priorities but obviously for individuals can be very important for them.

Q136 Tim Farron: You must have had feedback since the priorities have been put into place. The impact has not been that prices have gone up a bit and private individuals pay a little bit more, the impact has been that courses have closed down and whole adult education centres have been put under

serious threat, job losses and so on. In any area, but in an area like mine with older people who are retired, they are not just interested in gaining Level 2 qualifications, they are interested in keeping the grey matter going and this is a terrible blow to communities. I cannot imagine the Government did not realise this might be an outcome.

Sir David Normington: The Government was clear that it was expecting colleges, where they could, to raise more money through fees. All colleges have their own decisions to take about what they charge for and what not. We do not tell them what to do but we do include something in the formula. In fact, our estimate is that colleges forego about £100 million of income by not charging fees. Many colleges decide to charge no fees at all. We think that is wrong really. Our surveys show that where a course is valued, people who can afford to pay are very willing to make a contribution to a course. They do not understand why they should not but they do expect the Government to make a contribution as well. I have had the feedback that you have described. I do not think it is as yet a national issue in terms of closures everywhere but we are looking to colleges to look for alternative ways of raising some of the money. I am talking about a quarter to a third of it. There is a lot of Government money going into adult learning and in the end governments have to say, "I have got this money, how can I get the most value for it?" 16–19 is a priority, getting adult basic skills up to an acceptable level is a priority, getting adults to Level 2, which is the vocational equivalent of five A–C GCSEs, is a priority. You have to have your priorities and some provision, therefore, will be squeezed.

Q137 Tim Farron: The larger colleges are able to absorb some of these costs.

Sir David Normington: I am aware of that.

Q138 Tim Farron: Certainly in an area like mine we are talking about lots of small, perhaps school-based, adult education centres that have no fat to draw upon and they are seriously in danger of closing down.

Sir David Normington: I am aware of that and I will take that point back to the others.

Tim Farron: I would be grateful if you would.

Q139 Mr Marsden: Sir David, you made the point that it is for colleges to make their own decisions and the LSC is arms' length in that respect from them but also from the Government in the sense that you give them the pot and they decide what to do with it. Is not the point that is emerging from this debate about funding of adult education, and I accept the Government has done an enormous amount in this area, is that there is a law of perverse consequences. Many of the things that we are hearing about, certainly in my own neck of the woods in Blackpool, these cuts in adult education, are going to affect not just people who want to keep their grey matter going but people, particularly women in their 30s and 40s, who need to re-skill themselves in order to remain in the workforce. We have broader targets as a

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Government for meeting that. If I could give you a very specific example of the perverse consequence of this. In my particular patch it is going to result in a potential reduction in the number of trade union learners. That cuts directly across the Chancellor's state aim to expand the whole union learning environment. Do you not have a broader responsibility in terms of overall Government policy when discussing and deciding these things with the LSCs and should you not have given clearer guidance, particularly in respect of what the impact was going to be in terms of Section 98?

Sir David Normington: I am in danger of repeating myself. First of all, this sector will get substantial extra resource and the Government will be very clear what its priorities are for that resource and it will describe them. It will include getting an entitlement for all adults to get up to Level 2. It will include new sorts of re-entry courses particularly for those who have not got basic skills. In the end this is about how much money is available. One of the things that is happening in the skills sector is because of the emphasis that we are putting on raising the standards of 16–19-year-olds, we are beginning to see many more staying on. We have not yet got the outcomes but many more are staying on. That is putting enormous pressure on that bit of the budget. Similarly, our success in getting many, many more people coming back into basic literacy and numeracy courses is also putting pressure on that budget. We have to make those choices with the LSC and the LSC ultimately has to make the choices locally about what it will fund. We are very clear about this issue of trying to protect the valuable provision locally and the LSC is very clear about that. As we make the funding allocations in the next few weeks we will be trying to ensure both that we have a clear set of national priorities but that the LSC will be trying to ensure that it is sensitive to these local issues.

Q140 Mr Marsden: Given that is the case, can I just emphasise and urge you to relay this to the LSCs, that the impact of many of the cuts that we are hearing about in terms of adult learning are falling disproportionately on those courses which are being delivered in non-traditional FE environments, such as community centres and so forth, and for those groups of people who have been most reluctant in the past to enter into the FE structure, unless attention is given to that, the whole social inclusion aspect of this programme will be jeopardised.

Sir David Normington: If you have those examples we would like to have them. I know Bill Rammell would like to have them.

Q141 Chairman: We have been talking about priorities and we understand governments have to prioritise their spending, but as you do go round the country, as all of us do who are interested in education, you must hear what we hear about Academies. People are in favour of Academies, they think it is a very good regenerative innovation, but they wonder why it has to be so expensive. Why do all Academies have to be new build? Why does it have to be £25–30 million? Why can there not be partnerships with universities and Academies? It is the cost. People say there is nothing wrong with it in principle but why should they be so costly items?

Sir David Normington: The reason they are as expensive as they are is because they are new builds, as you say. We would like to have more refurbishments. In fact, we have one or two now in the pipeline. We do not think all Academies need to be new builds from the start. Very often Academies are replacing schools that in many respects have been neglected and are in areas where they have never really had decent educational provision. One bit of feedback I have had is from people who have said, "We never thought we would see anything like this in our community, it does not happen in places like this". That sort of reaction makes the investment worthwhile because it has a bigger community effect than just the educational effect. One last point on this: over the years we have not built many new schools, not many really brand new secondary schools, so when people are seeing these brand new schools going up they have not got much to compare them with. In fact, these schools are not, as new schools particularly in inner cities any more expensive on average. Some individual projects are but overall they are not any more expensive than if you were building an ordinary new school. There is a sort of myth about this that somehow they are very expensive. There are some very expensive projects and they are usually expensive because of some problem with the site, the clearing of land and so on, which has important community benefits; if you have got polluted land cleaning it up is a good thing to do. Overall the average cost of Academies at this moment is not significantly ahead of the cost of building new schools.

Q142 Chairman: Sir David, that is part of our mission here, dispelling myths. Can I thank you, Sir David and the two Stephens, for your attending and your answers to our questions. Could I congratulate our new team on having just as much capacity and ability in asking difficult questions. I hope everyone understood that our job is to be as robust as we possibly can be. Thank you for your attendance and we will see you again in the not too distant future.

Sir David Normington: Thank you.

Supplementary memorandum submitted by the Department for Education and Skills

Question 65–75 (Chairman): *The Department's approach to sustainability covering particularly school buildings, school meals and extended schools*

INTRODUCTION

The Department fully recognises its responsibility in promoting sustainable development in the classroom and in its own policies and actions. The topic of Education for Sustainable Development has already been the subject of a detailed inquiry by the Environmental Audit Committee, and the Government submitted its response in June 2005 in Cm 6594.

The Department is in the process of establishing a full website on sustainability. This site will bring together sources of advice and practical support for teachers, school heads and governors. The *Sustainable Schools* website will provide an on-line community, disseminate good practice and offer a shop window for many schemes to promote their service to schools. Until this is fully developed two temporary pages are in place:

- <http://www.dfes.gov.uk/aboutus/sd/action.shtml> summarises what the Department is doing to contribute to sustainable development in the whole education field; while
- <http://www.teachernet.gov.uk/wholeschool/sd/curriculum/> gives advice on how sustainable development can be reinforced in the classroom lessons across the whole curriculum. Four subjects have sustainable development integrated in the statutory component of the National Curriculum—science, citizenship/personal and social health education, design and technology, and geography. The site also gives suggestions on how sustainable development can also be covered in other subjects.

There is no one budget for sustainable development. There is a number of areas where sustainability can be promoted or practised within the overall funds available to schools and educational bodies. Thus schools and other bodies should use their funding in promoting sustainability issues in the wide classroom curriculum, and encourage school management to adopt sustainable practices.

The Department gave grants of £938,100 to Non-Government Organisations (NGOs) for environmental activity with schools in 2004–05. The Department and the Department for Environment, Food and Rural Affairs (Defra) have commissioned an independent review of funding for Education for Sustainable Development. The final report should be published in December but both the Department and Defra agree that following publication of the report there will be a need for closer joint working, clear and strategic treatment of Education for Sustainable Development and engagement with NGOs. The detail of what this actually entails will flow from the recommendations of the review.

Early next year we expect to be going to public consultation on our *Strategy for Sustainable Schools* which follows on from the *Sustainable Development Action Plan* for Education and Skills launched by Charles Clarke, as Secretary of State, in 2003. The Strategy will encourage all schools to become much more sustainable in their curriculum, the school's operation, and in the school's links to the community

SCHOOL BUILDINGS

We are supporting capital investment of £5.5 billion this year, rising to £6.3 billion by 2007–08. This includes the *Building Schools for the Future* programme which it is planned will invest over £2 billion a year for the next 15 years in school buildings that will meet tough environmental targets. It is a requirement for all new schools and large refurbishment projects over £500,000 in the case of primary schools, and £2 million in the case of secondary schools, to achieve a *BREEAM Schools* rating of "Very Good". The Building Research Establishment Environmental Assessment Method (BREEAM) is one of the Common Minimum Standards (CMS) for government procurement of building works which have been drawn up by the Office of Government Commerce.

We expect the *BREEAM Schools* requirement to be cost neutral, as many of the choices made in early design, which decide how sustainable a school's buildings are, have little or no cost.

Schools also have to comply with the new European Energy Performance of Building Directive to be implemented by 2006. The new revision of Building Regulations, Part L2, *Conservation of Fuel and Power*, being introduced in 2006 and new planning requirements on sustainable communities and renewable energy will also make schools and other buildings much more sustainable. The improved energy performance of school buildings will help us to meet our carbon dioxide reduction targets. Although meeting these enhanced requirements will result in a small increase in the capital cost of projects, over the lifetime of the buildings the energy cost savings will greatly outweigh the increase in initial capital costs.

SCHOOL MEALS

It is the Government's expectation that local authorities will lead, in partnership with other local stakeholders—particularly parents, schools and health services—the development and implementation of a local strategy to deliver a high quality, sustainable school meals service, which at least meets the nutritional standards for school meals that will become mandatory in September 2006. £130 million will be allocated to local authorities over three years to ensure that they can plan their transformation programmes well in advance of the minimum nutrition standards becoming mandatory in September 2006. We have set as a condition of funding that this strategy should include plans to begin the reintroduction of universal hot meals provision, where it does not already exist, by September 2008.

In addition £90 million will be granted direct to schools over three years to enable them to fund local improvements such as increased training and working hours for school cooks.

EXTENDED SCHOOLS

The Government is supporting the development of extended schools with funding of £840 million between 2003 and 2008—£160 million has already been allocated, and the Government announced in June 2005 a further £680 million for 2006–08. Of the £680 million, £250 million will go direct to schools through the normal school funding arrangements. The remaining £430 million will be distributed by local authorities who will be able to prioritise the allocation of resources according to need and their plans for the development of extended services.

For some extended services, such as childcare, we expect them to become sustainable longer term by charging. Parents on low income may be eligible for the childcare element of the working tax credit to support the cost of school based childcare.

In addition to resources that schools already have in their baseline budgets for study support programmes, the Government is investing a further £335 million by 2007–08 for secondary schools to develop a more personalised programme of study support. For those schools with the highest number of pupils who have fallen behind in their learning, the Government will provide a further £60 million shared between the primary and secondary sectors in each of 2006–07 and 2007–08.

For other services such as health and social care and adult learning opportunities, local authorities, using children's trust arrangements, will provide resources to support services where appropriate.

The Government wants all schools to offer access to extended services by 2010 with half of all primary schools and a third of all secondary schools doing so by 2008. The core offer will comprise of:

- high quality childcare, 8 am–6 pm all year round;
- varied menu of study support activities;
- parenting support;
- swift and easy referral to a wide range of specialist support services; and
- providing wider community access to ICT, sports and arts facilities including adult learning.

Question 99–100 (Chairman): *The headquarter locations of the Sector Skills Councils*

Sector Skills Councils are strategic employer-led bodies. Licensed by the Government they are leading the drive to improve competitiveness and productivity in industry and business sectors across the UK. At 1 December 2005, 25 councils had been awarded five year licences:

<i>Sector Skills Council</i>	<i>Sector</i>	<i>Location of head office</i>
Asset Skills	Property services, housing, cleaning services and facilities management	Exeter
Automotive Skills	The retail motor industry	London W1
Cogent	Chemical, nuclear, oil and gas, petroleum and polymer industries	Aberdeen
ConstructionSkills	Construction	Kings Lynn
Creative and Cultural Skills	The Arts, Museums and galleries, heritage, crafts and design, advertising	London SE1
Energy and Utility Skills	Electricity, gas, waste management and water industries	Solihull
e-skills UK	Information technology, telecommunications and contact centres	London SW1
Financial Services Skills Council	Financial services industry	London EC2

<i>Sector Skills Council</i>	<i>Sector</i>	<i>Location of head office</i>
GoSkills	Passenger transport	Solihull
Government Skills	Government Departments, executive agencies, Non-Departmental Public Bodies and the Armed Forces	London SW1
Improve Ltd	Food and drink manufacturing and processing	York
Lantra	Environmental and land based industries	Coventry
Lifelong Learning UK	Community learning, further and higher education, library and information services, work-based learning.	London EC4
People 1st	Hospitality, leisure, travel and tourism	Uxbridge
Proskills UK	Processing and manufacturing industries	Abingdon
SEMTA	Science, engineering and manufacturing technologies	Watford
Skillfast-UK	Apparel, footwear and textiles industries	Leeds
Skills for Care and Development	Social care, children, families and young people	Leeds
Skills for Health	The health sector across the UK	Bristol
Skills for Justice	Custodial care, community justice, court services, customs and excise, police	Sheffield
Skills for Logistics	Freight logistics industry	Milton Keynes
SkillsActive	Active leisure and learning	London WC1
Skillset	Audio visual industries	London WC1
Skillsmart Retail	Retail	London W1
SummitSkills	Building services engineering	Milton Keynes

Question 106–107 (Mr Marsden): *Relocations that have taken place so far under the Lyons dispersal programme*

In July 2004, the Department made a commitment to relocate out of London and the South East around 800 posts from DfES and its partner organisations by 2010. We are confident that we will meet this commitment.

Our strategy for achieving relocations is being taken forward alongside the Department's national estates strategy to ensure we achieve efficient and effective results for the business needs of the Department and its partners.

A total of 94 posts have been moved out of London and the South East so far, comprising:

- 79 DfES posts, including six Senior Civil Service (SCS) posts, working on the Centre for Procurement Performance, the Public Communications Unit and in the finance, facilities management and human resource divisions, now based in Sheffield, Runcorn or Darlington; and
- 15 Children and Family Court Advisory and Support Service (CAFCASS) posts, including three Deputy Regional Director posts, working on corporate services, now based in regional offices.

Projects to relocate a further 300 posts are under way and will be complete by April 2006, including:

- at least 230 posts in Ofsted moving to their regional offices in Bristol, Manchester and Nottingham, including a number of SCS and Team Leader posts; and
- around 70 posts in the Quality Improvement Agency (replacing the Learning and Skills Development Agency) are moving to Coventry, including the CEO, three Directors and other senior management posts.

Other relocations, which will meet the target of 800 posts by 2010, will result from plans being drawn up with the Qualifications and Curriculum Authority, the Training and Development Agency for Schools and other Non-Departmental Public Body partners.

Question 108 (Mr Wilson): *The use of consultants in the Department*

We have always been clear that the Department will continue to use consultants and other specialists where the need arises—like any other organisation. We are also clear about the importance of using consultancy where there is a proper business reason for doing so and where we can be sure we are getting good value for money.

A review of the engagement and use of consultants was commissioned by the Department's Audit Committee, which is chaired by a non-executive member of the Board. The Department's Internal Audit Division and the National Audit Office (NAO) carried out the review in late 2004 and early 2005 and a good practice guide was published subsequently by the NAO. This was circulated to senior managers in the Department and placed on the Department's internal guidance website. It has also been placed in the House of Commons Library. The guide provides advice on: the advantages of the appropriate use of consultants; classification of consultancy costs; contract management and post contract evaluation; and the implementation of consultants' recommendations.

The term "consultant" does not, of course, just cover the conventional management consultant who traditionally has had strong links to accounting concerns and accountancy bodies. There is a role for them in the Department to ensure our systems of operations are efficient and effective, but the term is used much more widely to cover a range of people from education, training, and children's services who support the Department's work. These will include front line practitioners (eg head teachers and teachers) whom we are using to increase our expertise on school and other education related issues, for example on school improvement and how best to raise levels of pupil achievement.

We are able to tap into first-hand, current expertise in a focused fashion, while not necessarily removing staff completely from the school system. Areas where practitioners have played a key role include:

- as chairs for School Improvement Partnership Boards, established to give direction and challenge to schools in difficult circumstances;
- engaging with policy design, for example a consultant head teacher from West Sussex, engaged part-time to ensure that her early experiences as a School Improvement Partner inform the work as it is developed nationally;
- London Challenge advisers, acknowledged education experts, offering direct challenge and support to "Keys to Success" schools; and
- advisers to new Academies helping to make transformational changes, particularly in standards, necessary in the most deprived areas.

Specialist educational consultants provide us with expert advice and guidance in developing teaching and learning materials to support life long learning and skills provision, including: adult and community learning; multi-media; business studies; Post-16 e-learning; and ITC user skills. There is also some high level work in progress by Sir Andrew Foster on learning and skills transformation.

Children's Services Improvement Advisers have been recruited from a range of backgrounds (mostly on secondment or fixed term appointment) to provide expertise and strengthen links with the bodies from which they have come. They have a strategic role in helping to promote and embed policies, supporting and challenging as appropriate. Their challenge and support role is more intensive when the Department is intervening on a formal basis, following inspection. As well as helping to embed policies, the advisers feed back to the Department information on the progress of reform, which contributes to future policy development and identification of good practice.

The Department spent £4.7 million of its administrative budget in 2003–04 on consultancy as defined by the Office for Government Commerce, which excludes external policy experts brought in to support policy delivery, and £3.9 million in 2004–05. Spending on consultancy from programme budgets was not recorded centrally before November 2004; however, from November 2004–March 2005 (five months) the Department spent £4.4 million. In the seven months to the end of October 2005, the Department has spent £1.5 million from its administrative budget and £5.1 million from programme budgets on consultancy.

From November 2004 the Department refined its accounting system which allowed it to identify more securely expenditure on external policy experts. Analysis of the data shows that the Department spent £9.5 million in this way between November 2004 and March 2005 and £4.2 million between April 2005 and October 2005.

December 2005

Wednesday 2 November 2005

Members present:

Mr Barry Sheerman, in the Chair

Dr Roberta Blackman-Woods
Mr David Chaytor
Jeff Ennis
Tim Farron

Helen Jones
Mr Gordon Marsden
Stephen Williams
Mr Rob Wilson

Witness: **Rt Hon Ruth Kelly**, a Member of the House, Secretary of State for Education and Skills, examined.

Q143 Chairman: May I welcome you to our proceedings? It is very nice to see you here. I do hope you had a very good visit in Yorkshire, particularly in Huddersfield, yesterday. I am very sorry I could not be there to greet you, but I believe my colleague Helen Mountford was with you for part of the visit. I hope you enjoyed visiting Greenhead, which is the number one college in A-level results in the country, and New College not far behind. That is my advertisement for Huddersfield. Can I also say that this is a momentous time for us in the Education and Skills Select Committee because here we are at the beginning of a new Parliament, there is an education White Paper that we have a great interest in, and education, as ever, is in the forefront of the Government policy agenda? Secretary of State, would you like to open with a short opening statement?

Ruth Kelly: Certainly, Chairman. I thought I would say a few words about the White Paper that was published just last week.

Q144 Chairman: Can I tell you that when the questioning arrives we are going to divide it fairly in half on school funding and financial matters and then we will shift to the White Paper?

Ruth Kelly: Fine, Chairman. Let me start by saying a few words about the White Paper, if that is all right. The basis of the White Paper is about making sure that every child, no matter what their background, has the opportunity to develop their talents to the fullest extent. It will have a most profound effect, I think, on those children who live in very difficult circumstances where life is often tough and aspirations particularly low. Our first task in the White Paper, but also in schools, is to make sure that what goes on in the classroom is tailored to what every individual child needs. The White Paper contains, I believe, a powerful package to this effect, using increased resources, a reformed school workforce and greater availability of ICT. There is a particular emphasis on catch-up classes for those who have fallen behind, particularly in the basics of literacy and numeracy, or indeed who arrive at secondary school without having mastered the basics; and there are proposals on stretch for those who would benefit from an extra challenge in the classroom as well. There is a strong section in the White Paper on discipline following the publishing of the Steer Report, and we set out a tough new approach to ensuring discipline and good behaviour in our schools. To make this tailored approach

work, however, I strongly believe (and the White Paper sets out why) we have to engage parents in their children's education. Our experience in areas such as the Sure Start programme show how important that is. Many parents are already involved in their children's education. We now have a huge challenge to make sure that all parents who want to be involved are involved, but particularly those parents who are hard to reach and find it difficult engaging with school life. We need to make sure that every school is a good school, building on the enormous progress that has already been made. Without this we will condemn too many of our young people to a sub-standard education. Of course we will continue the investment that we have already seen in our school buildings and also in the number of teachers and support staff, but sometimes very decisive action is needed at the school level; so we will be taking tough action on schools that persist in special measures and on schools that do not make sufficient progress. That may mean poorly performing schools federating with successful ones or, indeed, being replaced by new trust schools or, indeed, academies specific circumstances. We all know that choice and access is too skewed in the current system. For those who can afford it, this can sometimes mean moving house or opting for a private school. In the White Paper what I set out to do is to give more choice to those parents who cannot afford those options; and so the White Paper focuses on transport, which picks up on some of the proposals that have been put forward by the Select Committee, on choice advisers and opening up more options on admissions. I would like to say, Mr Chairman, a few words about admissions. Admissions are a crucial part of the school system. We are encouraging more schools to move to a self-governing status where they become their own admissions authority, but I want to be absolutely clear about what this means and what it does not mean. The White Paper does not mark a return to the divisive 11-plus, a free-for-all in admissions, nor does it mean that the most disadvantaged children will lose out; in fact the opposite. School admissions arrangements will continue to be within the law and have regard to the code of practice, and I am committed to making regulations to guarantee that looked-after children, for example, will have priority in admissions just as those with statements of special educational needs already do; and where there are doubts about the fairness of an admissions policy, then the important role of the school adjudicator

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comes in, and the school adjudicator will be able to consider objections to admissions arrangements even in self-governing schools. Local authorities, indeed, parents and schools will have a right to make objections to any admission arrangements that are set on the basis that they may not be fair. So if a school which is its own admissions authority draws up the catchment area, for example, that the local authority does not think does justice to the children living in that area, it could object to the school's adjudicator, which is on a statutory basis, about those admissions arrangements. The White Paper, indeed, sets out a clear role for local authorities giving a coherent, more strategic and I think more powerful role as a champion of parents and pupils in their area. This means increasingly commissioning, rather than providing, education with a duty to promote choice, diversity and fair access to schools. So local authorities will not only, as they do now, ensure a sufficient supply of places, letting popular schools expand or federate, closing schools that are poor or fail to perform, running competitions to open new schools, but they will also respond to parents' concerns about the range and quality of schools on offer, support parents when their children are changing schools, engage parents when a failing school is put into special measures; and this applies particularly to those parents who would not naturally have a voice heard in the system. Local authorities will help all schools improve their standards and intervene decisively in those schools that are falling below expectations, issuing warning notices and taking radical action promptly, and they will have a stronger role in 14–19 provision as well, working very closely with the local LSCs to ensure high quality provision of 14–19 education in every area. If this is the role of the local authorities, the actual provision of schools will increasingly come through the new Trust School arrangements that we are proposing. Trust Schools will be based on fair funding and fair admission—quite different to the old grant maintained schools. They can be delivered through a locally managed system—again, completely different from the old GM school arrangements—and the opportunity to acquire a trust will be open to every school, and we will make sure that the schools commissioner acts to help ensure that potential trusts focus their interest on weaker schools and schools in disadvantaged areas which are in need of greatest support. As we know from specialist schools and academies, the opportunity to form a link with an external partner who can bring drive and support is a key to drive real school improvement. I think, Mr Chairman, this is a package that addresses the needs of every school and, indeed, every pupil in every community. It will target more resources for those with the greatest need and help close the attainment gap between disadvantaged pupils and others, it will put personalisation and discipline at the heart of the schools reform agenda and it will increase choice, but particularly for disadvantaged groups.

Q145 Chairman: Thank you for those opening remarks, Secretary of State. Can I open the questioning by getting a bit of a timetable from you?

We are quite interested in looking in some depth at the White Paper, as you would imagine, and we would like some guidance on how quickly the legislation necessary to implement the White Paper will come about. Do you have any idea how much of the White Paper will need new legislation and when that will be introduced?

Ruth Kelly: No, Mr Chairman, the precise dates for the introduction of new legislation are always subject to change and will depend on negotiations within government and other government departments and so forth, but the timetable that I envisage for the White Paper is that we will be consulting on its contents, making sure that we get the details right, drawing up new legislation between now and Christmas, perhaps into the New Year, with legislation following, and the first reading some time after that. There will be new legislation required.

Q146 Chairman: In your mind do you have February pencilled in or April?

Ruth Kelly: I should think it would be rather earlier in the New Year than April.

Q147 Chairman: Thank you. That gives us some guidance. Can I start the questioning in earnest by asking you this? We have looked at the figures very carefully in terms of expenditure of the Department. It is no secret that there has been a great increase in expenditure in real terms as a per cent of GDP over a number of years, but it is also no secret that that is plateauing now, it is levelling up, and it is going to be, within two years, more in line with the growth of GDP. At the same time there is not just the White Paper but a lot of reforms going on in the Department, and the White Paper you have just talked about is only the latest. In a sense the Committee is concerned, because changing is a very expensive period, it costs money, but at the same time your income is going to be levelling out and, as a percentage, perhaps diminishing. Are you going to be running into trouble delivering all these new policies and all these changes at a time where you have a lot less resource?

Ruth Kelly: I do not think so, Mr Chairman. Let me say why. First of all, investment is going to continue and we have a commitment that was set in our manifesto that education as a proportion of GDP would continue to rise across this Parliament; so I expect to see significant investment in education over the coming years. That is not to say that the rate of growth will be the same. Of course that is variable and will depend on the economic situation of the time. However, investment in our schools, and particularly in capital, will continue, and, in fact, through our BSF programme, we are committed to a very long-term strategy for improving the capital stock of both secondary schools and, indeed, more recently we have set ourselves a strategy for upgrading the capital stock of primary schools as well, and that capital investment will deliver our programme, including on the Schools White Paper. For instance, in *Building Schools for the Future* local authorities—and this brings me into the second part

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of today's session—will have a clear role for setting out their educational vision for an area. To have really significant capital sums at your disposal as a local authority is a huge lever which will help you and enable you to carry out this role effectively; so it is quite possible to argue that they will find it easier in future to undertake the radical change to education that we envisage than they have in the past. The second point is that what we are trying to do through the Schools White Paper and in other areas of the Department is to become more strategic and devolve increasingly to the front-line the detailed decision-making that in some cases used to take place more centrally, and, the more that we can do that, the more we can trust our front-line partners, including our teachers and support staff and our head teachers in schools, the easier that will become. It will enable us to reduce the number of staff needed in the Department, but also see, I think, greater efficiency secured at the front-line.

Q148 Chairman: At the moment, Secretary of State, you do not have a permanent secretary, but we did interview him I think the day before he moved to the Home Office. He was not very convincing when we asked him about this change in the nature of the Department from a normal department to a strategic department. Indeed, some of the unions involved in your Department are rather unhappy about this. They cannot really see much of a change; they are feeling a bit unsettled and perhaps loss of some confidence in their future, but all in all, from Sir David down to your regular workers and members of trade unions there is a worry that this strategic change is not apparent?

Ruth Kelly: I hope I can reassure you, Mr Chairman, that I do still have a permanent secretary, even though his departure has been announced. Sir David Normington, thankfully, will be with us until the New Year before he transfers to the Home Office; so there is continuity in policy and in leadership in the Department. However, you are right to draw attention to the fact that we have to and are becoming a more strategic department. To give you one concrete example, it used to be the case that there were over 40 or 50 separate funding streams going to schools which the Department centrally monitored, evaluated, held to account, had policy teams working out how that money should be spent, which schools had to apply for, which they then had to spend their time not just bidding for, and so forth, but filling in evaluation forms and sending them back to the Department to be accounted for. In future schools will have their devolved money and they will have basically two large separate funding streams. This is a radical simplification of the allocation of funding to the front-line that enables not just us to take a more strategic approach to the nature of our relationship with schools but actually schools themselves to have a more strategic approach to how they handle that money and account for it. When you combine that with our completely new accountability system that we have through the school improvement partnership, the new relationship with schools, which streamlines the

accountability of schools so that they have a single conversation with the local authority school improvement partner about how well they are doing and how well each pupil in their school is performing rather than a myriad of separate accountability frameworks, I think you will be able to see the direction of travel in which we are shifting and why that will enable us to both release staff but also use that money more effectively in supporting the front-line and improving teaching and learning.

Q149 Chairman: The direction of travel might be encouraging, but will you not have a rather nasty accident some way along the road if, on the one hand, our concerns about lack of funding materialise (and you know more about the Treasury than most people in this room), but, on the other, out of that Treasury, out of Gershon, you are going to have, I think, 4.3 billion savings. This could derail or push you off the road, could it not? Where are you going to find £4.3 billion savings that is going to be, not fudged, but you are going to be held to account by the public accounting authorities?

Ruth Kelly: I think we are completely capable of meeting the 4.3 billion within the timescale that we have been set to achieve it, and, as I think the Committee is aware, we will be subject to the National Audit Office making sure that we do achieve the efficiency savings that we have set out to achieve, and we have been very transparent about how we are going to do that. We will achieve it, for example, through better use of teacher time—more productive time. Our workforce reforms are all about enabling teachers to spend more time preparing their lessons and delivering high quality lessons to pupils and less time carrying out administrative functions that can easily be done by support staff in the school. It is a very good example of teachers being able to work more efficiently and, indeed, effectively and will help and allow them to raise standards.

Q150 Chairman: So you are going to save the money in schools?

Ruth Kelly: A lot of it will be saved in schools because most of our money is now devolved to the front-line. There will also be savings through better procurement practices, working with schools and others to achieve savings in procurement and cash savings in schools through that as well which they will then redirect. They have a real incentive to go down this route because they will be able to redirect that money towards the front-line.

Q151 Chairman: With the front-line you include further education. Would you be able to be more generous, as the demographics will, in any event, save you money, with less and less children coming through. I think on a previous occasion the Ministers told us you could save 50,000 teachers. You could do without 50,000 teachers because of the demographic change. Is there any thought in your mind that would shift that to this FE sector where

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there are many complaints to members of this Committee that there is insufficient funding for all sorts of adult education?

Ruth Kelly: If you go back far enough, there have been drives for efficiency savings in the past and they have not borne fruit because the people at the front-line have not seen the real benefits of achieving those efficiency savings in terms of their own ability to invest more in the front-line and to drive up standards of teaching and learning. What this Government has done in contrast is to say to the front-line that, if you achieve the efficiency savings, which you have a real incentive to meet, you will be able to reinvest that money in improving standards of teaching and learning.

Q152 Chairman: You are dodging a bit here, Secretary of State, if I may say so. Is there a chance that some of this saved resource could be shifted to FE, because there are a lot of complaints about continuing in education at the moment?

Ruth Kelly: Mr Chairman, you will well know my personal commitment and, indeed, our Department's commitment to see the participation rate rise from 75% to 90% over the next 10 years. Clearly there will be a big demographic shift in secondary schools. Not just yet, but in a few years' time, that will start to have a real impact in the classroom. I would like to see some of that dividend being used to help increase the staying-on rate, which will mean being used to support 14–19 specialist pathways and making sure that that happens on the ground and that people do have more choices to follow courses that suit them, learn in ways that suit them but also to stay on. I hope more and more students will choose to do that.

Q153 Chairman: In terms of shifting resource, there has been a disturbing story running around this week that our opportunity to host what some people call (I know we are not supposed to) the Skills Olympics, but the summit for the focus for skills in 2011 is under some threat even to make a bid because the Department is being rather mean with its money. Are you aware of that? Surely you want the Skills Olympics to come to Britain in 2011?

Ruth Kelly: I am determined that we use resources in the most cost-efficient way that we can. We have put in already an initial expression of interest in the Skills Olympics, and we are seeking external sponsorship to help us do that. I am sure that your Committee would agree that that is the right way forward, to try and draw in external partners in this sort of bid. We already have had some very strong commitments externally and we will continue to seek them.

Q154 Chairman: Secretary of State, the word on the street, as I like to say, is that you are giving the people organising this only four months to obtain sponsorship before making a decision. We have several years to deliver on the sponsorship. Surely four months to get the sponsorship in place is too short a time?

Ruth Kelly: We have already had major pledges of sponsorship.

Q155 Chairman: You will do everything you can to bring the Skills Olympics here?

Ruth Kelly: Yes, but we have to do it in a cost-effective way, and that is what I am absolutely determined to do, because there are risks attached.

Q156 Chairman: You will not put up an impossible bar?

Ruth Kelly: I will not put up an impossible bar, I will put up a realistic one, but I have a responsibility to the tax-payer to ensure that we use tax-payers' money to best effect, and we have to be absolutely clear about what the costs and benefits of holding the Skills Olympics are. Personally I think the benefits could be very large. It certainly could raise the profile of skills in this country; it could excite the interest of many people who currently are not considering pursuing further skills to do so. However, we have to be very clear about what the potential costs are as well, and it is important that we take both sides into account.

Chairman: Thank you for those opening replies. Secretary of State, we will mull over them.

Q157 Mr Chaytor: Secretary of State, the Government is proposing a revolution in the autonomy of the difficult schools, but at the same time you have nationalised the funding system. Do you see some contradiction between those two?

Ruth Kelly: I do not agree with your premise that we have nationalised the school funding system. What we do have is a system where the funding that goes to schools is now on the Department's balance sheet. Where that sits on the balance sheet I do not think determines how that money flows or, indeed, the accountability for that money. In fact local authorities, both in the White Paper but also in the funding system, have an incredibly important role to play, just as strong a role as they have had in the past and in some senses stronger in terms of the White Paper measures, for allocating the money which is now ring-fenced by Government for the use of schools, and, indeed, in some areas local discretion has increased, for example, through the schools forum where the schools forum now have an input over how that money is used, their views have to be taken into account. They can in some circumstances, for instance, take local decisions about how schools funding links in with the *Every Child Matters* agenda and so forth, decisions that could only in the past have been taken by the Department. So the local funding formula is still drawn up by local authorities who are responsible for distributing money.

Q158 Mr Chaytor: What proportion of total school spend is subject to the local funding formula as against the national prescription?

Ruth Kelly: If you are trying to get at what the new funding allocation mechanism will be, of course, we are consulting on that, but what we have said is that

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local authorities will be responsible for distributing the money which is allocated to them through the national funding formula.

Q159 Mr Chaytor: The Government is determined that for the current three-year period there will be a minimum funding guarantee, so there is no discretion of local authorities there?

Ruth Kelly: There will be two minimum funding guarantees. There will be a minimum funding guarantee at the level of the school, because you rightly point out that this is an issue but that schools have asked us for stability and security of funding as an absolute priority at the moment, but there will be clear priorities that the local authority has because we are also saying that local authority funding will increase by a specific amount over the spend that it had in the previous year; so it will be able both to meet the minimum funding guarantee and have some headroom to distribute according to local priorities and local need.

Q160 Mr Chaytor: If you wanted a real market system in our schools and if you want the more popular schools to expand more freely, should not the funding system allow that to happen? What you are effectively doing is putting a damper on it to prevent the full consequences of a market system developing?

Ruth Kelly: We are putting a damper on this, and I think, for absolutely good and sensible reasons, very rapid movements in funding can be very disruptive for a local area.

Q161 Mr Chaytor: Does that not undermine the whole basis of a market system?

Ruth Kelly: Not at all. Indeed, 75% of the money follows the pupil immediately, so there are quite strong incentives for the school to expand and so forth. You would not want very rapid changes to hit schools, and indeed they indicated to us that they want some security of funding. I think local authorities accept that as well. The minimum funding guarantee is on a per pupil basis, so that does help provide some security for schools, and the fact that only 75% of the money follows the pupil provides an extra element of security for schools as well.

Q162 Mr Chaytor: In the 1997 election manifesto the Government was committed to reviewing the funding formula for local authorities and made some changes in that Parliament. In the 2001 manifesto the Government said it would reform the funding formula for local authorities and did so from 2003. The impact of the minimum funding guarantee is to stop those changes to a fairer system in their tracks. Are we going to see the implementation of the principles of the ending of SSA and the shift to FSS in this Parliament, or has that now been abandoned completely?

Ruth Kelly: I do not accept that the implementation of the minimum funding guarantee prevented the redistribution that I presume you are talking about in its tracks at all. What the minimum funding

guarantee did was introduce a floor to the changes so that no authority or particular school would lose out disproportionately very rapidly. I think that most people accept that that was a sensible precaution to take at the time; indeed, if you look at funding changes throughout government, when redistribution is considered there is normally a floor set in place to minimise disruption. It is clearly the case that we are consulting on the new funding formula at the moment. We are currently considering those responses and should have something to say on that fairly shortly.

Q163 Mr Chaytor: So you are saying that the process of redistribution as outlined in 2003 will continue?

Ruth Kelly: What I have said is that we are consulting on that. We put out the consultation paper in July, we are currently examining the responses to that and I will make a statement shortly.

Q164 Mr Chaytor: Am I right in thinking that there is still half a billion pounds to be allocated to schools in the next financial year?

Ruth Kelly: If you are talking about the headroom that there is between the minimum funding guarantee and the total of the GSD, there is a substantial amount of headroom. I cannot tell you what that figure is off the top of my head, but what I have said is that a substantial proportion of that I would like to see directed towards the personalisation agenda which will enable schools to direct resources to those pupils who have not attained the necessary levels when they start secondary school in English and maths, and so forth, and also help them provide extra lessons for the most able.

Q165 Mr Chaytor: That is going to be used to shape the curriculum in individual schools rather than address the problems of funding between local authorities?

Ruth Kelly: You are right. What I have been talking about is how the headroom should be used within schools, but local authorities will still have to distribute that between schools, and clearly there still is the issue about relative local authority funding.

Q166 Mr Chaytor: Can I ask finally, do you intend that all schools will be subject to the same funding mechanism in time?

Ruth Kelly: This is something of local discretion. Local authorities will still set their local funding formula—we will not be doing this from Whitehall—and there is a rough and ready funding allocation mechanism which enables us to distribute funds through the direct school grants to individual local authorities, but local authorities will then have the discretion to allocate that between their local schools on the basis of relative and even priority.

Q167 Mr Chaytor: But currently academies are outside of that system.

Ruth Kelly: They are.

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Q168 Mr Chaytor: Will they stay outside that system or will there be a common system for all schools, including academies?

Ruth Kelly: No, academies will still be funded from Whitehall.

Q169 Stephen Williams: I think David has covered most of the questions we had, but can I ask you a question about the dedicated schools grant that David referred to as the nationalisation of school funding? At the moment my own local authority, Bristol, has historically over-spent over the old SSA and funding formula share. When the dedicated schools grant comes in next year will that overspend be protected and funded directly from your Department?

Ruth Kelly: It will be based on last year's funding levels, so, yes.

Q170 Stephen Williams: You say, yes.

Ruth Kelly: It will be based on the actual spend last year.

Q171 Stephen Williams: There are also authorities that historically have under-spent as well. I think there is roughly 100 million of underspend and 200 million of overspend. Is this new dedicated schools grant going to adjust just for that straightaway? Is it going to be phased?

Ruth Kelly: You will have to wait to see the precise details. What we have said is that it will be based on actual spend last year plus a minimum funding guaranteed element.

Q172 Stephen Williams: Local authorities obviously will be starting to put their budgets forward soon. How soon will they get certainty over what their budget for next year will be?

Ruth Kelly: Quite soon.

Q173 Chairman: So we are absolutely sure, Secretary of State, we are going to continue with the minimum funding guarantee after the next two years?

Ruth Kelly: What we have said is that we will review the operation of the minimum funding guarantee after two years, and, of course, it may need adjustment in the light of different priorities at the time.

Q174 Chairman: You are not worried that you will run into the same sorts of problems that you had last time?

Ruth Kelly: I think security and stability of funding is an absolutely critical element for us to look at and to try and ensure that schools have stability in funding. We have a system at the moment that guarantees that the minimum funding guarantee will meet all cost pressures no matter what they are. I think over time we will have to take a very good, hard look at that and see what efficiency savings really mean at school level.

Q175 Mr Wilson: I would like to dig, if I may, Secretary of State, more into the efficiency savings that Chairman touched on at the start. Your

Department says: "Our efficiencies are in the main efficiency gains." Could you give me your understanding of what that means?

Ruth Kelly: For example, if a teacher uses ICT to teach and uses an interactive white board and uses a prepared digital curriculum, we know that it takes less time for that teacher to prepare a really high quality lesson. That is a clear efficiency gain.

Q176 Mr Wilson: How then will it be apparent in 2007–08 that the Department has made this 4.3 billion of savings compared to 2004 when this all began?

Ruth Kelly: Because savings will be audited by the National Audit Office at all levels, they will be audited at the level of the front-line, including the level of the Department, so we will see whether and how these efficiency gains materialise.

Q177 Mr Wilson: Have you any idea how the National Audit Office will evaluate those savings?

Ruth Kelly: Yes, they have very clear mechanisms, which are set out, as to how they are going to do this and, indeed, the Department's technical efficiency note, which has been put on our website, I think, is one of the most transparent in government and will enable them to do that fairly easily.

Q178 Mr Wilson: In that case will the Department be able to provide detailed evidence of the new expenditure that it has undertaken using the money from the efficiency gains? Will you be able to catalogue where you have made the savings and what it has been spent on?

Ruth Kelly: This is something that schools or other front-line services, just to take schools as an example, do all the time. They make efficiency gains, for example, through the greater use of ICT or through workforce reform, and, as a result, they improve the standards of teaching in the classroom and results rise. How precisely you capture what impact that has on teaching and learning is quite hard, but how long it takes a teacher, for example, to prepare a lesson is something that can be captured quite accurately and, indeed, that is the sort of measurement which will take place.

Q179 Mr Wilson: History has shown that efficiency savings are particularly difficult to sustain, and even your Department has had a failure to do that in the past. How are you going to expect teachers and governors in schools to make these savings, because you have to find most of them in schools, when they are not experts in making efficiency savings? Will they not need some sort of help to do this?

Ruth Kelly: They get a huge amount of help to do this. If you are looking at workforce reform in schools as a model, which is about using teachers and support staff more effectively as part of the school team, our national remodelling team, which is effectively the operations arm of our Department, was out there in schools helping to make this happen on the ground, and schools have had access to that very intensive personal support to make their staff more productive. They have also had a huge range

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of training days and so forth. If you are looking at procurement practices, that is something that we can issue central guidance on and that schools have an incentive to take extremely seriously. I think the last time that you considered this in Committee with the Permanent Secretary and others he mentioned the example of school insurance, where I understand that, within a number of years, schools could save between two and three thousand pounds each if they followed the new guidelines. The reason they will go down this route, I am confident, is that they can then reinvest that money in hiring more teaching or in improving the quality of the school in some other way, but they can reinvest the money into delivering better front-line services.

Q180 Mr Wilson: Can I be clear about what is going to happen with this is 4.3 billion? Will you be funding increased activity from the same budget or will the Treasury give you 4.3 billion less to perform the same tasks?

Ruth Kelly: Increased activity.

Q181 Mr Wilson: It will be increased activity. In 2007–08, if you are still Secretary of State for Education at that point, you can give us a guarantee that there will be 4.3 billion of savings?

Ruth Kelly: As far as it is possible to give a guarantee in these issues, that is what we are working towards and I am absolutely confident we will achieve it.

Q182 Chairman: Have members of your staff sent out any memoranda on the implications of Gershon to schools yet? Have you communicated to them the level of savings that they have to make?

Ruth Kelly: We are communicating through the procurement issues very intensively with schools, trying to identify what can be provided where support is needed and where they would welcome extra support. We tend to look at these on an individual basis. What can be done with the school workforce to make it more productive? What can be done with the ICT budget to make teachers use their time more effectively? What can be done with procurement, and so forth.

Q183 Chairman: You have not got to the stage where every school has one of those thermometers with savings that they must make with a price tag on it?

Ruth Kelly: I think they would rather see it as improvements and effectiveness of the delivery of teaching in the classroom and meeting the needs of children more effectively, and that is what this is all about.

Q184 Chairman: Secretary of State, if you want an individual school to have responsibility for the management of their organisation, should you not be fair and say: "This is the sum. This is the target for you to save. This is what you must meet"? It is rather inchoate if they do not know what the bid is?

Ruth Kelly: They do know what value for money savings they are supposed to produce, and that is part of the conversation which they have with the school improvement partner in their annual accountability.

Q185 Chairman: If I went to a school in my constituency, walked through the door and said to the head, "How much have you got saved under Gershon?" they will be able to tell me?

Ruth Kelly: I think it is the sort of thing that school improvement partnerships in their training learn about and then can question the head teacher about how they are procuring efficiency savings at the level of the individual school.

Q186 Dr Blackman-Woods: Secretary of State, the DfES and LSC have recently announced the funding priorities for further education for the next two years. Can you tell us how the new funding priorities address the perennial problem of the gap in funding for 16–19 courses between sixth forms and FE colleges? Is the aim still to close that gap?

Ruth Kelly: I know how emotive this issue is; it is something that is brought to my attention incessantly. Indeed, I have sympathy with the FE sector when it points out the funding rates, for example, are lower in the 16–19 FE sector than in schools, and one of the things that I was determined to do in the LSC funding package was to make clear that the MFG (minimum funding guarantee) rates applied to 16–19 across the board rather than just schools. Clearly that stabilises the situation rather than improves it. I think there is some way still to go, and I understand that the funding gap has been identified as even larger than the gap in the funding rates, and I am very aware of that as well. I am also aware of the commitment that has been made in the past, which I am personally committed to as well, to try to narrow that gap as resources permit, and, for that reason, we are very closely looking at the difference in funding and how we might make more progress towards that in the future.

Q187 Dr Blackman-Woods: Do you have a timetable in mind, because "when resources permit" could be any time. Is there a timescale there to address this?

Ruth Kelly: I would like to make significant progress on this. We are currently looking in detail at the issue. I shall have more to say on this in the coming weeks.

Q188 Dr Blackman-Woods: I had a meeting with the LSC earlier this week. They are clearly happier that they have got a clearer set of priorities now, and they are wondering, as we all are, are the priorities too narrow now? Do they enable us to retrain people who are already in work? Can you tell us whether you think the priorities are too narrow? What scope is there for extending those priorities in the future?

Ruth Kelly: This is the first time that the Government has been absolutely clear about its priorities for skills, and I think it is hugely important for the Government to make its priorities clear, particularly since there has been a 45% real terms

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increase in funding into the FE sector since 1997; so there are very significant resources being put in. What we have to ask ourselves all the time is where should that money be spent most effectively? There are some cases, like 16–19 education, where students have an entitlement to receive training, skills acquisitions and education, so we have a responsibility to make sure that is a government priority. There are other areas where we know that skills acquisition is hugely important to an individual's life chances, particularly their chances and prospects of future employability. We know, for example, that all the skills acquisition up to level two is really important in terms of employability. However, there are no clear individual returns in terms of financial returns from investment from the individual's point of view in the acquisition of those skills, nor, indeed, in terms of the employer interest in funding skills acquisition up to level two. From a social point of view, therefore, I think we have a very clear rationale for directing government funding in terms of basic skills acquisition and level two acquisition. We know that above level two there is a direct financial return, both to the individual and to the employer, for investment in the acquisition of those skills. It strikes me that it is only sensible, therefore, to think about the relative contribution between government, the employer and the individual in post level two skills acquisition for adults, and that is what the LSC has set out in its funding priorities. I am absolutely clear, they are absolutely clear, that it is right to ask for an individual contribution and the employer contribution where appropriate to post level two training. This does not mean to say that somehow one has committed to level three training and above; in fact the opposite. It means that we are determined to invest the money most effectively and to get best value from it. For instance, at level three we would expect, through the national employer training pilots, for the employer to fund level three training on the condition that they also provide level two basic skills training paid for by the Government, but we are also piloting in two regions match-funding for level three acquisition to see how that works in practice.

Q189 Dr Blackman-Woods: I am not sure that we have dealt with the group of people who do not have level two qualifications, do not need basic skills qualifications but do either need a way into re-skilling or to up-skill, and it is that group that the LSC seem to be quite concerned about, indeed we are all concerned about. Perhaps you could elaborate a bit on how that group can be dealt with?

Ruth Kelly: I think it is a very important group. Students and potential students, who might need to acquire entry level qualifications before acquiring the full level two qualification, still need to be drawn into the sector, they need attention, they need the support and nurture to gain those entry level qualifications of one, two or three before going on to acquiring more advanced qualifications. It is clear to me that colleges and other training providers ought to be able to find a way within the priorities that have

been set to draw those people in and to provide free training where necessary. That could be done within the Skills for Life budget, where only about four fifths of it, I think, is allocated for qualifications. It could actually be done through other routes as well. It could be done, for example, through the local authority controlled funding of personal community development—some of that could be secured there—but it is absolutely right to try to draw those people into learning, and the intention is in no way to sacrifice those people; indeed the reverse.

Q190 Tim Farron: Following up on that point, Sir David Normington said when we quizzed him on this that the Department had not anticipated the damaging impact of the LSC funding priority changes on adult education centres, particularly in smaller rural areas. I wonder, after the fact you have become concerned about the impact on courses and the potential closure of some of the smaller centres, what you might do about it?

Ruth Kelly: I think this was a point that was raised at the last committee that the Department is now looking at, but the intention by being clear about priorities is not to have an impact on any particular pattern or provision. Indeed, what we have done through the National Employer Training Programme, by working directly with employers, is saying to employers that we would fund the provision which best meets their training needs, and for some, that would be in FE colleges but much of it would also be outside FE colleges, adult training centres and private training providers as well. It is not clear to me which direction the impact would be, but I am happy to look at his particular circumstances.

Q191 Tim Farron: I have forwarded some information from my constituency to your colleague, the Minister for Lifelong Learning. The concern is really that we are not just talking about drawing people into life-long learning perhaps in the early part of their lives; we are talking about the entire... This is a valuable part of community provision that is being hit. A large FE college can probably absorb the changes; a small adult education centre, the evidence seems to be, cannot?

Ruth Kelly: The question really is whether they are able to charge fees for the provision that we are putting on, and we are sending a very clear message. We know what our priorities are; we are very clear about them. The sector will have to adapt to those priorities. It does not in any way mean that other courses should be withdrawn. What it does mean is that colleges and other providers might have to think harder about whether they charge fees at all or the level of fees they charge. We also know that when you ask learners who learn for leisure purposes whether they would be prepared to invest some of their own money in going to those courses, the overwhelming opinion is, "Yes."

Q192 Tim Farron: The marginal impact has been significant, I would say. I can think of examples like lip-reading courses, for instance, that are being

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withdrawn because of the additional cost, but we will not get into the nitty gritty. Your colleagues will see the correspondence and I hope we will see some action. Let us move on to the issue of part-time students and to say that this Committee welcomed, at least, in a lukewarm way, the additional money provided towards education fees for part-time students, and lukewarm because we are concerned that part-time students are still not treated in a comparable way to full-time students. I wonder whether you would tell us whether you would consider giving that parity with regard to allowing part-time students to defer their fees in the same way that full-time students are able to?

Ruth Kelly: I think we have come up with a very creative solution to the issue of part-time students actually. I think it is important to recognise that this Government was the first government to provide any support to part-time students at all to meet their fees, and there was no fee support before 1998 whatsoever. The Higher Education Act, which deregulated fees up to a point, up to a cap, did not include part-time students, and institutions came to us and argued that we should look at them separately from other students and we should think more carefully about what support should be provided to them, and we have done that. We have come to a solution which proposes a very large increase in fee-support for low income students with significant rises in the means-tested fee grant for low income part-time students, which I am happy to take the Committee through, but you probably have that information already.

Q193 Tim Farron: Staying with higher education, the concern expressed when Sir David Normington was here with regard to variable bursaries, I would like to raise with you now. Obviously the Government is reacting with concern, and I am glad it is, to the declining proportion of entries into higher education from state schools and from poorer backgrounds. The provision of bursaries obviously is tied up with the wherewithal of institutions to top up those bursaries. The example we have used already is that Cambridge University has a turnover of 650 million, Middlesex a turnover of 120 million, despite the fact that Middlesex has something like four or five thousand more students. Clearly the wealthier universities with the wealthier student profiles will have more bursaries, and those universities with the better track-record of recruiting people from difficult to reach backgrounds and poorer backgrounds will have the least money available to attract those students?

Ruth Kelly: There are a number of points there. First of all on the facts about the number of students from state schools going to university, after three consecutive annual rises and a proportion of students from state schools going to university, there was a tiny blip in the proportion, but that was accompanied by a rise in the absolute number. Clearly that set lots of people off saying there was some crisis in applications from state school pupils. In fact their numbers have gone up in recent years. That is a tribute, I think, to the work that universities

have been going out to do on widening participation. I am very committed to this widening participation agenda. Indeed, we have seen, as a result of the new bursary system, that a very significant proportion of the extra fee income raised has been allocated towards bursaries from universities and was significantly higher than we as a Department were expecting them to contribute. The result is that it is now quite possible for someone from a low income background to get into university with very significant financial support both through the national system but also through individual bursaries from universities. Are some universities going to find it easier to offer bursaries than others? Perhaps that is true, but the fact of the matter is that we have seen a very substantial rise in the size of the financial support package being offered to students, and I think that has enhanced the opportunities and choices that they are able to make as a result and has particularly helped those from low income backgrounds.

Q194 Tim Farron: But those universities that are good at attracting students from widening participation backgrounds are the ones that have the least wherewithal to do more of that?

Ruth Kelly: Some of this actually ties into the question that was asked about part-time students, because some of those institutions that are very good at working in participation have a disproportionately large number of part-time students; so the additional help for part-time students will help. The HEFCE board are considering additional measures on part-time students as well.

Q195 Mr Marsden: Secretary of State, as a former Open University student myself until 1997, I welcome very much the additional support you have given to part-time students, and I think no-one in the room would be in any doubt that the Government has made enormous strides in terms of the funding of FE over recent years, but the issue of adult learners will not go away, and I think the critique is that, although the decisions that have been made by the LSC may have been tactically smart, they are not very right strategically. The Associate Parliamentary Skills Group last week produced a report in which they indicated, not just that the majority of members of Parliament believed that we had to invest equally in the skills and training of adult learners, but also that the demographics over the next 10 to 15 years are going to invert the pyramid, or the trapezium, if you like, of learning, and you really are going to have a massive new cohort of people who are going to need to be re-skilled and retrained in their forties and fifties. Have you taken that on board, has the LSC taken it on board and what are you going to do beyond the immediate funding issues to address that problem?

Ruth Kelly: It is a very important point. Part of the rationale behind the current funding priorities is that there is a clear social as well as an economic rationale for investing in those adults who have poor literacy and numeracy skills but also who have not had the opportunity at school or while they were young to

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acquire a first floor level two qualification. I think it is right that we make that available in government because, to be frank, we are the only people that are able to invest in those areas and we have a responsibility to do that. There are other economic priorities and it is right too to consider those, particularly, if somebody has gained a full level two in one area should they be able to retrain free of charge in another area, for example? Should they be able to have some government funding to help them get to level three? Those are slightly different arguments, and I think the balance of responsibility shifts between the Government, the individual and the employer. However, it is important to have a degree of flexibility, and, indeed, that is what is happening, I think, in cases like the Northern Way, where regional development agencies are working with learning and skills councils and others to have a specific approach to regeneration in their area where they can add additional funds of their own to support regional economic priorities, and that model, I think, is a very interesting one. It is not necessarily one that has completely wide-ranging applicability throughout the country.

Q196 Mr Marsden: I welcome very much what is being done by the Northern Way and indeed the level three pilots to which you referred which both your constituency and mine will benefit from. The issue that I also want to raise with you is about the relationship between the Government and the LSC. The LSC seems to be falling between two stools at the moment. It is regarded as very centralist in its funding procedures but not regarded as being entirely autonomous and there is not local control or input, or hardly any, into the LSC. Will you be able to ask your officials to look more centrally at this whole strategic issue so that in future conversations with the LSC the whole issue of the demographics will be addressed more thoroughly than it has been so far?

Ruth Kelly: The Department is responsible for setting the strategy of the LSC and the LSC is responsible for the operation of that strategy. As for local input, that is one of the things that Andrew Foster in his report on FE will be looking at. We are expecting his report to be published later this month but in the Schools White Paper one of the points I made was that in the 14–19 area there should be a much closer link-up between local authorities and the local LSC in determining local priorities, with clear accountability in some areas with huge budgets for 14–19 across the piece. It will be a very interesting experiment to see how it works on the ground.

Q197 Mr Marsden: I am going to persist slightly with the implications of the cuts in funding because you spoke earlier about having clarity of the position and clarity of priorities and that is entirely welcome, but there is also the law of unintended consequences. In yesterday's education *Guardian* there was a very disturbing feature which talked about the way in which money that has been taken out of the learner support fund for 2005–06 by the LSC has directly affected the amount available for child care support

nationally for learners. Stephen Doyle, the LSC child care funding manager says it is down by 25%. This is hitting the very people that you referred to as needing level two skills. The article quotes students at Manchester College of Arts and Technology, which is about 20-odd miles from your constituency and about 20-odd miles from mine. This is a classic example, is it not, of where the micro results of a particular policy are having a detrimental effect on the very people you are trying to help?

Ruth Kelly: I am not going to pretend that there are not funding pressures on the LSC because it is clear that there are and sometimes difficult decisions have to be made. However, within the funding priorities that I have set, they are clear that a certain amount of that is reserved for learner support and that colleges and others can make the local decisions necessary to help overcome the barriers of individual learners. There are also other funds that it is possible to draw down, to help overcome particular barriers, particularly in child care.

Q198 Mr Marsden: This is the LSC saying themselves that this is causing them problems. They are saying that, because there has been a 25% reduction in the amount of child care nationally, they are simply not able to deliver this to local colleges. That is clearly an issue, is it not?

Ruth Kelly: These are issues that local colleges have to try to resolve. They have to use the money they have to best effect, but this is in the context of significant extra sums being put in the centre.

Q199 Mr Marsden: You referred to the issues of fees for part-time students and that is very welcome. There is still an issue though, is there not, in terms of central funding and central support for those new universities like the OU and Birkbeck who are very significantly affected by virtue of the proportion. We have talked to HEFCE already about this, as you probably know. Will you and your officials look sympathetically on the needs and concerns of those universities if the HEFCE settlement, which I gather is about to be announced, does not prove to do all the things it needs to?

Ruth Kelly: You will hear news on this shortly.

Q200 Jeff Ennis: I would like to take you back to the issue of the funding gap. I am sure you have had the opportunity to see my excellent EDM 85361 on this very issue. Charles Clarke 18 months ago said to this Committee that he was concerned about the funding gap and that it would be closed in five years. The clock has been running 18 months and we are now down to three and a half years. I am wondering whether you can commit yourself to closing the funding gap in those three and a half years. After all, we are a government that sets targets to other public bodies and I would like to set a target for you to come up with a defined timetable and tell us when you are going to close that funding gap.

Ruth Kelly: It is always very tempting to set targets. I have huge sympathy for this argument. We have to take it very seriously. I know my predecessor did. It is something that I am looking at very carefully.

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Even within the LSC priorities it has been made clear that the 16–19 funding rates will increase in line with the minimum funding guarantee in schools. That is a clear statement of the priority that I attach to this issue. We will also be considering other issues to do with the lack of equivalence in the way that students in the FE sector are treated compared with those in schools. I will have more to say on this later.

Q201 Jeff Ennis: When I questioned Sir David Normington when he came to give evidence to this Committee recently, I quoted one of the consequences of the funding gap in Barnsley as being the fact that earlier this year, in terms of over-achievement of student numbers, the principal at Barnsley College recruited an extra 106 students into the college and was told by the Learning and Skills Council in South Yorkshire that, because he had already given the target of the numbers that were going, that funding was not available to recruit those students. We are talking about an authority here that has some of the lowest staying on rates in the country. Eventually, the Learning and Skills Council agreed to meet half the cost of the additional students. If those students had been going to a sixth form school in Barnsley, it would not have been an issue. It is issues like this that we need to direct our attention to, because we are working against what we are trying to achieve nationally in getting kids to stay at school from 16 onwards.

Ruth Kelly: You are absolutely right. The issue is not just about the funding gap, although that is an issue; it is about the operation and flow of funding between schools and sixth-form colleges in the FE sector more generally as well and how that works. Later in the autumn I will be publishing a delivery plan for the 14–19 agenda which will look at some of these issues to make sure that funding flows in an equivalent manner throughout the system and that some of the barriers are broken down. The particular issue that you raise is very important.

Q202 Chairman: Why do we need an expensive bureaucracy like the Learning and Skills Council?

Ruth Kelly: The Learning and Skills Council as you know is the major funding channel for schools development. I hope it will become much more efficient and effective at its job once it has gone through its agenda for change programme. It operates with a strong regional tier which will be significantly upgraded and its capacity enhanced.

Q203 Chairman: If you do not need a funding agency for schools and you say, “No. Whatever happens we are not going to have an intermediary between the Department and schools”, why do you need it here? Why do you not go the whole hog? Your instincts are to have this direct relationship in education. Go for it post-16.

Ruth Kelly: The Learning and Skills Council has a significant degree of expertise, particularly in working with businesses and employers and drawing them into the provision of skills and so forth. It would be a huge loss to the system if we were to lose that expertise. I also think that the agenda for

change programme will significantly upgrade their capacity to respond on a more strategic level to some of the challenges they are facing and as a result the service will improve.

Q204 Dr Blackman-Woods: Strong leverage used in favour of the introduction of variable fees was that this would be additional income into the higher education sector. As we move into the next round of spending review, are you confident that the funding for HE will be maintained so that the income from fees will be additional income and not replacement income?

Ruth Kelly: I do not think government ministers are at liberty to say what is going to happen in the next spending review but I can assure you of my total commitment to ensure stability in the sector.

Q205 Dr Blackman-Woods: It is a question of principle though rather than numbers. Are you confident at the principle of maintaining that?

Ruth Kelly: Everyone in government understands the desirability of maintaining that.

Chairman: A lot of us put ourselves out on this question and we were assured that that was continuing so I would like to reinforce that question.

Q206 Stephen Williams: “Choice” is a word you often use, Secretary of State. It relates back to FE. As I understand it, a choice of a person at 16 increasingly is to take A-levels and other courses at college rather than in a sixth form; yet we have a funding situation adversely affects the FE sector. Your expansion programme post-16 for 300 new academies is that every new academy must have a sixth form. Are you not skewing the choices on the ground?

Ruth Kelly: That is not what is happening. The FE sector has benefited enormously from significant investment over the last eight years. Its real funding is up by 45%. We are committed to investing in the capital stock. An extra £1 billion over the next five years is being applied to a long term programme of building colleges for the future. In terms of the funding priorities, even though we are redirecting money towards basic skills and a level two formation for 16–19 skills acquisition, broadly, levels of funding in those courses have been maintained public funding. We hope to secure private funding as investment as well so you would expect to see the overall level continue to go up there. We have a commitment to try and narrow the funding gap which I am taking seriously and determined to make progress on over the coming years. We could do more for the FE sector. Sir Andrew Foster is currently reviewing the nature of what the FE sector is for but I do not think you could put it in the terms that you did. It is also important to broaden student choices. Some students will want to study at 16 in an FE college. Others will want to go to sixth-form college. Others will want to stay in a school sixth form. What we need is good quality provision that meets the needs of students and enables them to have access to as broad a curriculum as possible. I am committed to trying to make sure that happens.

Written evidence

Memorandum submitted by Volunteer Reading Help

SUMMARY

1. Volunteer Reading Help (VRH) is a national charity that helps disadvantaged children develop a love of reading and learning. We recruit and train volunteers to work with children aged six to 11 who find reading a challenge and may need extra support and mentoring. We have 3,000 trained volunteers who read, play and talk with the children on a weekly basis. Our work takes place in primary schools but we are also doing some work in libraries and with looked after children.

2. VRH very much welcomes this annual DfES inquiry into Public Expenditure on Education and Skills, which will allow coverage of a wide range of issues including the funding relationship between the Government and the voluntary and community sector. Many important funding issues have already been raised in a recent publication from the National Audit Office on *Working with the Third Sector* and VRH urges the DfES to take note of the recommendations. VRH strongly supports the report's focus that the third sector has an important role in delivering public services, and hope that the committee inquiry addresses the issue that currently the potential of this role is not being harnessed and used efficiently in delivering public services. This is due to inconsistent funding and complex funding schemes, as well as limited guidance on what constitutes good practice.

DfES FUNDING FOR THE VOLUNTARY SECTOR

3. The complex and fragmented approach to funding by the DfES and related organisations raises a number of questions concerning engagement with the third sector, inconsistency and length of the funding support available and the methods of delivering funding and procurement contracts created during this process. It is hoped that these questions can be addressed by the current inquiry.

4. This fragmented approach to funding contributes to the inconsistency of many funding arrangements within the third sector. Currently there are no consequences for reneging on funding promises, so even seemingly long term commitments are subject to change and this leaves many organisations vulnerable to sudden cuts, placing constraints on voluntary sector organisations and preventing them from taking independent action.

CASE STUDY: EXAMPLE OF SHORT TERM FUNDING—VRH'S EXPERIENCE:

VRH had a meeting in January with key civil servants at the Department for Education and Skills to discuss ongoing funding of VRH's work. At that meeting, it was agreed that VRH would receive a further three year's funding: £300k in 2005–06, £220k in 2006–07 and £220k in 2007–08. In April, the CEO of VRH received a letter from the DfES saying that due to a spending review and the general election, the Department could only pledge a further year's funding at this stage. This was in complete contradiction to what had been promised at the meeting in January, and is an example of where the Compact Champion could arbitrate on behalf of VRH. This kind of about-turn in policy is extremely unhelpful, though has happened to others also due to the Spending Review.

5. The National Audit Office also makes the conclusion that further steps are needed to improve funding on a practical level. Their research shows that third sector organisations have not seen any general improvement in funding practices since 2002 and in some cases funding practices are perceived to be worse. VRH would like to see the DfES implement an improved and consistent funding practice as well as encouraging practical examples of sharing good practice at all levels. This would help to develop greater trust between the third sector and the Government within funding relationships.

FUNDING FOR EXTENDED SCHOOLS

6. Volunteer Reading Help welcomes the £680 million funding commitment made by the Government for the "Extended Schools Programme" which provides a solid commitment until 2008 to increase the opening hours of schools and forms an integral part of the Government's wider Every Child Matters objectives. However, VRH is concerned that when broken down, the funding commitment per school only amounts to £30 million over two years.

7. VRH would like to see the DfES issue guidance on how to engage the voluntary sector in the Extended Schools Programme and believes that this participation and the Extend Schools services as a whole should then be subject to inspection, making sure that it becomes essential that voluntary and community sector organisations are fully involved in the programme.

REQUIREMENTS FOR GRANT FUNDING

8. VHR welcomes government funding aimed directly at schools through the Dedicated Schools Grant, and feel this will allow funding to be at its most flexible, stable and effective. However there is concern that deprived schools should not miss out as funding is given per pupil, which may have an adverse effect on those schools with falling role numbers. It is these schools who are most in need of support and VRH works closely with many of them. It is also key that in light of this ring fenced funding, schools are required to involve the voluntary and community sector in aiming to deliver high quality education and are formally inspected on their work in this area.

DEVOLUTION OF FUNDING

9. VRH strongly supports the devolution of funding to regional and local level, which is taking place through several means, in particular through Children's Trust arrangements. VRH feels that it is important that local services are put firmly in control of their funding arrangements.

10. VRH believes that involving the voluntary sector locally should not be a bolt-on service. The National Audit Office report makes an important observation, that many voluntary organisations have experienced significant problems with local authorities failing to adhere to funding practices, especially full cost recovery, due to pressures on their budgets. VRH accepts that there are difficulties for local authorities in this area and complicated processes in securing streamlined funding; however this must not impact on the provision of services to children and young people.

28 September 2005

Memorandum submitted by NATFHE

INTRODUCTION

NATFHE—The University & College Lecturers' Union represents 68,000 lecturers, tutors, managers and researchers in higher, further, adult and prison education. With the news that the discussion leading to the next Comprehensive Spending Review is to be delayed a year following the retiming of the Economic Cycle, NATFHE welcomes this opportunity to make its views known on the amount of public expenditure that will go to further and adult education, and on our key funding concerns.

The past year has seen two major reviews of further education: the LSC Agenda for Change, the prospectus for which was published this summer, and the Foster Review of FE which will report in a few weeks.

The LSC's Agenda for Change promises some major reforms of fundamental aspects of the learning and skills sector such as funding methodology, new performance measures, data collection, new benchmarking for work with employers. Earlier this year there has been the creation of the Lifelong Learning Sector Skills Council and Centre for Excellence in Leadership, and later this year another quality improvement agency will be launched. Simultaneously major curriculum developments are in the pipeline.

Whatever the merits of the recommendations of the Tomlinson Working Party or the latest White Paper on 14–19 education and on which the Select Committee commented earlier this year, developments are taking place at national and local level. Similarly the Skills White Paper published just before the general election reaffirmed the priority that will be given to remedying the endemic low skills in the UK workforce. These curriculum developments will need to be supported by professional development for staff across the learning and skills sector who will be delivering these new programmes to new learner groups.

Changes have cost implications and NATFHE would argue that for these changes to be successful, they will need to be resourced properly.

The Select Committee may wish to question DfES ministers and senior civil servants as to whether the public expenditure for the sector in the coming year is sufficient to support the successful implementation of the changes that are being proposed.

2004 Select Committee Report

In preparing this submission to the Select Committee, NATFHE reviewed what the Committee reported last year on overall Departmental expenditure and the particular points made about further education.

We noted that the Committee stated:

- That the total Education expenditure as a percentage of GDP had risen from 4.7% 1997–98 to 5.5% 2003–04.
- That the change from 1997–98 to 2003–04 was over 45% for schools and over 54% for FE and adult.

- However the real terms funding spending per pupil had been fastest in schools. If 100 was the base line figure for 1997–98 schools now stood at 137 and FE at 126.
- The Comprehensive Spending Review for 2004–05 to 2007–08 stated that education expenditure would grow by 4.4% between 2004–05 to 2007–08 with individual year's growth being 6% in 2005–06, 3.8% in 2006–07 and 3.5% 2007–08.

Referring to further education, the Select Committee declared that it made no sense that a FE student was less well funded than a school pupil undertaking the same programme. The Committee report stated that:

“Progress to equal funding is painfully slow. Greater urgency is needed. Further education should not be seen as a means of providing education on the cheap”

The Committee also reported that the Association of Colleges had given evidence that the funding gap between schools and colleges for similar work with similar students stood at 10% in favour of schools. The Department's Permanent Secretary told the Committee that although the Government was seeking to narrow the differential between school sixth formers and FE 16–19 students, progress was very slow.

The Committee also was very concerned about standards in FE, not just in colleges but across all providers. It stated that:

“The funding issue cannot be divorced from the quality issues . . . increased funding by itself will not lead to improved achievement. However increased investment will help address the issues concerning teachers. Better pay and improvements in teacher training for FE should also help address these problems of poor achievement.”

NATFHE considers that these issues remain largely unresolved and jeopardize the sector's ability to meet the challenges set by Government.

THE QUANTUM

The quantum of public expenditure given to education in general, and the learning and skills sector in particular, is inadequate to secure the goals that the Government wishes to achieve. If education and training for young people and adults is, as many claim, the key to economic regeneration in a globalised economy, public expenditure on education and training must be seen as a necessary investment. NATFHE acknowledges that education's share of GDP has increased but if our growing number of international competitors are increasing their spending on education and training at a faster rate than the UK, then our relative position will at best remain static and at worse could fall.

We should like the Committee to ask for comparable figures for the UK's European and international competitors.

NATFHE also acknowledges the additional resources the Government has put into further education, and the greater increase relative to that for schools. Welcome though the additional resources are however, they merely begin to compensate for the FE sector's legacy of enormous underfunding. Last year's Committee report showed that real terms spending per pupil was still higher in schools than in FE. Given this legacy of underfunding and the challenging new roles for the sector NATFHE would argue that additional resources are still urgently required.

NATFHE is aware that the coming year, 2005–06, is the best of the next three years of public expenditure from the last Comprehensive Spending Review. 2006–07 and 2007–08 will be extremely tight years for spending in the learning and skills sector.

Other funding pressures that will occur include the funding for the national roll-out of the National Employer Training Programmes which will amount to £600 million from 2006. 2007 will see very severe pressure on sector resources with the ending of the present round of European Social Fund which supports a great deal of learning and skills provision in some of the most disadvantaged communities.

The Committee may wish to examine how much “dead weight” (amount of training that would have occurred without the NETP initiative) can be assessed in this programme.

Finally we note in the Committee's last report that in 2002–03 the DfES had an underspend of 38% on its further education, adult education and lifelong learning budget. We acknowledge that matching estimates to actual spending can never be a totally satisfactory exercise. However the amount of the underspend reported is alarming when resources in the sector are so stretched.

We would hope that the Committee can discover what the underspend was for 2003–04 and what the estimates are for the underspend in these budgets for current year.

FUNDING FOR ADULT LEARNING

It has become clear over the course of the year that there have been a number of negative and even perverse outcomes in the funding of adult learning. These result partly from providers being “too successful” in the context of a finite LSC budget and exceeding their targets both for growth in adult learners and for 16–19-year-olds, and partly from the known priority of the Government for work with 16–19-year-olds and the in-built legislative bias towards young people that was written into the Learning and Skills Act 2000. There

have also been some negative effects on provision from changes to the funding methodology for adult and community learning. This has meant variable levels of provision for adults between different colleges and services and between different local Learning and Skills Councils. We believe that the welcome guarantees given for adult and community learning in the first Skills White Paper June 2003 may have been seriously undermined.

NATFHE does not disagree with the Government's priorities for adult learning in directing scarce resources to those most in need—adults without basic skills and those in the workforce without a full level 2 qualification. We do not demur from the view that these are the prerequisites for further skills acquisition including gaining qualifications at level 3 and above which are those the economy most needs. However it is becoming increasingly evident that these policies need to be part of a well-rounded set of policies that include skills generation at all levels.

The Government's intention to shift the balance of contributing the costs of adult learning to those who have already benefited from previous learning experiences is being implemented partly through the priority being given to learning programmes leading to full level 2 and basic skills qualifications, but also through increasing the fees that providers charge to those studying on level 3 and higher programmes. NATFHE has yet to see the hard data as to the effect that a rise of price of learning may have on the demand for learning. Classic economics would lead one to think that it may well mean a fall in demand. As far as we are aware this policy has not been based on evidence and we are fearful that the long term impact may be a fall in the numbers enrolling on these programmes because employers may be reluctant to pay for the increased costs, especially when they are being offered free level 2 programmes through the National Employer Training Programmes. Many low paid individuals who look to level 3 qualifications to move to better paid employment will not be able to afford the new increased fees. The result may be that level 3 programmes may have to close if they fail to recruit sufficient learners. Colleges saw a similar perverse outcome in the 1990s when the FEFC funding methodology drove many providers to close down expensive workshop and practical programmes.

The negative results of these policies can now be seen in the shortage of certain skills such as engineering and construction. We must preserve the progression opportunities for those currently taking up the level 2 entitlement and those who will do so in the near future. In this year's Skills White Paper the Government seems to have begun to sense the dangers of an unbalanced programme of skills generation by introducing pilots around an entitlement to level 3 programmes in the West Midlands and the North West.

Another perverse outcome is arising from the disjunction between the existing narrow National Qualifications Framework and the welcome moves towards a credit and unit based curricula and qualifications system for adults being led by QCA and the LSC. It is acknowledged that the National Qualifications Framework badly needs reform, yet it remains the chief determinant of priority targets for learning and skills adult funding. Provision that does not lead to qualifications in the NQF is classed as "other provision" and is not among the priority areas for funding. As it seems to be implemented in some areas, this may adversely impact on vocational programmes and important necessary provision below level 2.

Combined with the clear priority for growth being 16–19 work and the fact that whilst the numbers of 16–19s in colleges grew by 4% the costs of such students grew by 6% there is a tightening financial squeeze on funding for many adult programmes. This is confirmed by figures released by the LSC over recent weeks. NATFHE is hearing reports that in some college enrolments, adults are being turned away from vocational programmes to keep the places for 16–19-year-olds.

NATFHE would urge the Select Committee to take up these questions with the DfES and others, when considering the current round of public expenditure.

Indeed we consider that the whole area of adult learning funding and its relationship to skills generation, and meeting the Government's goals, is an area which the Select Committee could usefully investigate. There might also be a fruitful investigation of whether the limits of voluntarism, or even post-voluntarism in skills generation, have been reached.

Fundamentally this concerns the amount of resources the country is willing to invest in learning and skills. It may well be that the limits of state funding are being reached in this area. However it is not clear whether employers—the other main possible source of resources and amongst the chief beneficiaries of skills generation—are willing to invest more of their own resources in what remains a voluntarist system. NATFHE would certainly argue that the kind of demand-led system as outlined in the two Skills White Papers can only be achieved with a range of statutory measures including some legislative extension of the right to include training in collective bargaining, greater use of "licenses to practice", even a limited right to paid educational leave perhaps combined with fiscal incentives to employers to train and upskill.

THE FUNDING GAP BETWEEN SCHOOLS AND FURTHER EDUCATION

Last year the Select Committee commented negatively on the funding gap that existed between school sixth forms and FE when working with similar students on similar programmes. The Committee reported that progress towards equality of funding was painfully slow and that FE must not be education on the cheap.

This funding gap has not been narrowed over the course of the year. Indeed a LSDA research report, “The funding gap: funding in schools and colleges for full time students aged 16–18”, published in July 2005 shows that the gap is in fact higher than thought last year. It now stands at 13–14%. The report shows how various mechanisms operate to the detriment of FE and to the advantage of schools. The report believes that this percentage gap amounts to £245 million in cash terms. It goes on to demonstrate that the cost of removing the most serious anomalies between FE and schools funding, some 7–9% of the gap, would amount to about £150 million. NATFHE with others does not advocate a leveling down of school resources to FE levels but a levelling up of college funding. Here the report finds that this would require an increase in the FE budget of about 10–11%, £200 million.

This submission is not the place to reiterate the findings of the LSDA Report but we would commend it to the Committee. NATFHE would argue very strongly that this funding gap is doubly iniquitous. Not only is it inequitable for similar programmes aimed at the same age group to be funded differently, but FE overall has a 16–19 student body which has achieved less than the similar school cohort, and is working on lower levels of qualifications which often require more teaching and other support. Evidence from the DfES Evaluation of Success for All and from the Youth Cohort study published this year show that FE colleges take a greater proportion of GFEC learners come from relatively disadvantaged social backgrounds, from lower social classes and from black and ethnic minorities. The funding gap thus compounds the disadvantage already in the system. In localities that only have tertiary education for 16–19-year-olds, that is there are no school sixth forms but all 16–19-year-olds in education and training attend an FE college or training provider, young people are being educated and trained on fewer resources than those localities with 16–19s in schools. FE is providing 16–19 education and training “on the cheap”. At a time when we are trying to establish a more coherent system of 14–19 education which can only be implemented by schools and colleges working together, such inequalities not only cannot be justified, but may become a serious barrier to the successful implementation of these policies.

NEW FUNDING METHODOLOGY

In July 2005 the LSC published its Prospectus for its review, “Agenda for Change”. In that it proposes yet another new funding methodology and funding formula. NATFHE is still trying to absorb what the proposals mean and as yet is neither for nor against the proposals; we have not yet seen the results of any modelling that may have taken place and so cannot yet assess their impact. The LSC claims that the proposals are aimed at simplifying the funding system and reducing unnecessary bureaucracy—aims with which NATFHE would agree. We would warn however that long study of the various funding methodologies implemented over more than a decade since incorporation, shows that any funding methodology results in winners and losers and usually has unintended and at times perverse outcomes. NATFHE recognizes that both the DfES and the LSC are attempting to reduce the power that funding has over curriculum development. But this link seems to work in subtle and persistent ways. As we have indicated above change has cost implications and changes to funding methodology however well intentioned, also have cost implications, especially as they bed down.

We would urge the Committee to question both the DfES and the LSC as to the intentions and implementation of the new funding system that is being proposed.

THE CONSEQUENCES

We have set out above the principal issues that NATFHE believes underlie any discussion of public expenditure in the learning and skills sector over the coming year. If these issues are not resolved, the union considers that there will be damaging consequences. NATFHE strongly believes that there will be considerable damage to efforts to improve standards and quality throughout the learning and skills sector.

Pay and conditions

NATFHE has for many years pointed out the widening gap between salary levels in schools and in colleges. This now stands at around 10%. The FE Unions concluded a salary settlement in 2003 that was to run for two years and included a scheme to modernize pay in the sector. The unions delivered their members’ support for the scheme. Yet although colleges largely paid the salary increases of the settlement, only 34% have implemented the modernisation element involving shortening dramatically the length of the pay scale—the very measure that would have narrowed these pay differentials between schools and colleges.

The consequence is that colleges are losing staff to schools and the persisting low FE salaries mean that is becoming increasingly difficult for colleges to recruit, especially in shortage subjects. With around 50% of current staff retiring within 10 years this is a dangerous situation.

Low comparative pay affects not just colleges but all the learning and skills sector. FE colleges are in fact the market leaders in the sector in terms of pay. Their relatively low salary levels have an impact on both adult and community and work-based learning providers. Just as colleges are losing staff to schools, so adult and community learning and work-based learning providers can lose staff to colleges.

Ultimately salary levels will affect the quality of staff who work in the sector and the quality of the learning programmes they deliver. The impact of low pay can be seen in the figures for turnover of staff in colleges. Currently it is running at 15.9%, (14.3% for teaching staff, 16.4% non-teaching.) In 2004 92% of colleges reported vacancies, compared with 89% in 2003. Of total vacancies, 15.6% were for Basic Skills teachers, 12.3% Construction, 10.2% in Health and Social Care. Temporary cover and reallocation of duties are the main means that colleges try to cope with this situation.

Colleges say they cannot afford to honour pay settlements. Funders tell unions the money is there. Everyone passes the buck. We would ask the Select Committee to ask Ministers whether given the seriousness of the situation, in addition to ensuring the resources are there, they would consider a modernising fund for colleges to draw on as an interim measure and then a funding stream for the longer term?

The funding position has consequences for conditions of service of staff, especially in the numbers of teaching hours staff are required to undertake. In a number of colleges the number of teaching hours is increasing, as colleges face increasing financial stringency. This may well have an adverse effect on quality. FE teaching staff have to deliver a much more varied curriculum to a much more varied student and learner body. It is not unusual for a FE lecturer to be teaching across the range of vocational and academic courses, from the lowest level to the highest. Despite the efforts of the DfES Standards Unit there is all too often a dearth of curriculum materials and lecturers have to spend their time developing their own. This is in addition to assessment and pastoral work.

Damage to infrastructure through redundancies

The crisis in adult learning funding is resulting in job losses in a number of providers. At the start of the summer NATFHE had been informed of potential job losses in over 30 institutions. The effect of such losses is not confined to one area of the curriculum or one set of learners. Few college lecturers only teach adults or only teach young people. Job losses because of cuts in adult funding may well impact on a college's ability to deliver its programmes right across its provision including that for young people. The very infrastructure of college's ability to deliver effectively may well be damaged.

Damage to professional development

One of the four key themes of "Success for All" was "Developing the leaders, teachers, trainers and support staff for the future." It was recognised that new and changing demands required new responses and the building of new capacities. In last year's report the Committee commented favourably on the improvements in teacher training for FE that had been proposed and hoped that these would begin to address problems of poor achievement in colleges. However there has not been additional financial support for staff development in further education, despite the identification of its high importance and of the existence of underlying problems. A paper to the Foster Review on staffing reported that most colleges appear to spend between 1 and 2% of budget on training far less than other areas of public service such as the NHS. Funding is undoubtedly a major factor in this profile around professional development in the sector.

NATFHE has strongly supported the DfES proposals around initial teacher training and continuous professional development, and is supporting the newly established Lifelong Learning Sector Skills Council. However a recent on-line survey of NATFHE members on the remission from teaching that they received to undertake a course to obtain the mandatory professional qualification now required for new FE teaching staff, showed that 50% of the respondents were receiving no remission to undertake this and some were even having to pay for their course. For a sector that depends on other employers training and is supposed to be at the heart of lifelong learning, these are shocking facts.

We would urge the Committee to inquire of Ministers as to the mechanisms and funding in place to ensure that colleges put in place the necessary resources to implement initial teacher training and CPD plans.

September 2005

**Memorandum submitted by Peter Lowe, Head of Finance, Children's Services,
Bury Metropolitan Borough Council**

1. SCHOOLS' FUNDING

Bury schools are amongst the poorest funded in England in Formula Spending Shares (FSS) and have to heavily rely on additional funds from local taxation.

The new Dedicated Schools Grant (DSG) will use the Schools Block, which is based on the Schools FSS and the amount of local resources.

Consideration is being given to aggregating these resources and eventually distributing them to all authorities to ensure that DSG funding for each authority will be at least at their former Schools FSS level.

Despite not distributing their funding at FSS levels many of these authorities have more than enough resources to fund their schools, in per pupil terms, at much higher levels than schools in other areas that are heavily reliant on additional funds from local taxation.

By re-distributing these funds via the DSG to ensure that local authorities allocate at least at their former Schools FSS levels can only be viewed as "robbing the poor to give to the rich".

Many schools that are in poorly funded areas would view the re-distribution of funds away from them into already cash-rich schools as educationally damaging.

The funding proposals outlined in the DfES' letter of 21 July 2005 (Ref: LEA-1662-2005) indicated that the DSG for 2006-07 and 2007-08 will increase by 6% each year, while each authority will receive a minimum 5% per pupil increase in its DSG allocation.

This incremental approach adds a much smaller monetary amount to those schools that are funded at the lower end of the league tables while their much cash-richer neighbours will receive a larger increase to meet all the demands all schools face. For instance many Bury schools will struggle to fulfil the "Workforce Reforms" because of a lack of resources. Our funding levels are so poor that nearly all Bury schools have to use their Schools Standards Grant to support their basic education provision.

Ofsted and the Audit Commission are consistently encouraging the Authority to adopt Policy-led or Priority-based budgeting rather than an Incremental Budgeting system. This is difficult to achieve when the main allocation methodology is so heavily reliant on an annual per pupil percentage increase.

As there is a gap between the 6% increase in the DSG quantum and the minimum 5% per pupil increase, could these "headroom monies" be utilised to give an increase in the basic entitlement funding per pupil supplemented by a percentage increase? This would ensure that local resources would not be distributed elsewhere and would help to narrow the funding gap between the "haves" and the "have-nots".

2. PUPIL REFERRAL UNITS (PRUs)

For all intents and purposes, PRUs are viewed as schools and will fall within the auspices of the Schools Forum when they recommend allocating resources to the "Central Spend within the Schools Block". PRUs have their own DfES school number, they receive various grants such as Schools Standards Grants, Standards Fund and Threshold Payments, but they do not have the same financial management benefits as schools with delegated budgets. Nor are they allowed to be members of the Schools Forum.

Could consideration be given to changing the status of the PRU's so they can at least benefit from the use of balances at the end of the financial year rather than having to rely on the authority and the Schools Forum as to what happens to their devolved resources?

3. SCHOOL BASED BANK ACCOUNTS

Although schools are empowered to pay all their own bills and salaries through their own bank account, could an explanation be given as to the rationale and benefits to schools of these transactional arrangements?

Because of the increased stewardship that managing a school bank account brings, schools are taking on more back-office staff at increasing salaries to meet their processing obligations. Is this the best use of scarce educational resources and placing an additional burden of bureaucracy on schools that we are all trying to reduce?

In these days of sophisticated financial Management Information Systems, such as Agresso (as chosen by the DfES), is the promotion of school based bank accounts appropriate?

Where Agresso has been implemented in schools those schools have chosen to relinquish their separate bank accounts preferring the improved financial management information rather than the cumbersome transactional processes they have to be involved with when having their own bank account. Consequently should authorities be criticised by Ofsted and the Audit Commission for not actively promoting school-based bank accounts?

4. STUDENT FINANCE

At the moment local authorities are generally the first port of call for student finance and despite a number of difficulties with the introduction of the computer systems most things are functioning properly.

The latest proposals are to introduce centralised pilot schemes to see if services can be provided more effectively. Although these are not fully operational a number of issues need to be carefully considered.

It is understood that some functions would be retained within local authorities but if there is centralisation surely local skills and knowledge would disappear. When there is a problem who would students refer their problems to? If they are still uncertain or wish to take the matter further say by writing to their local Councillor or constituency MP how would they take up the problem? At the moment by having local offices it is much easier for elected representatives to resolve the problem. Public services need to be local rather than being dealt with by someone hundreds of miles away.

The five main points outlined in the 7 June 2005 statement are achievable by local people serving local students' needs. A Service Level Agreement that is agreed to by all would be a more effective model than centralisation.

September 2005

Memorandum submitted by the Field Studies Council (FSC)

SUMMARY

1. The Field Studies Council (FSC) is a pioneering educational charity committed to bringing environmental understanding to all. Established in 1943, the FSC has become internationally respected for its national network of 17 education centres, international outreach training projects, research programmes, information and publication services and wide range of fascinating professional training and leisure courses. The FSC provides informative and enjoyable opportunities for people of all ages and abilities to discover, explore, be inspired by, and understand the natural environment. The FSC believes the more that is known about the environment, the more we can appreciate its needs and protect its diversity and beauty for future generations.

2. The FSC welcomes the opportunity to contribute to the annual inquiry into Public Expenditure on Education and Skills, to further highlight out of classroom education and its many benefits, and hopes that the merit of such education will be realised.

3. At present not all students are able to benefit from the experiences of outdoor education, leaving significant unexploited potential, as concluded by the Education and Skills Select Committee recommendations of the *Education Outside the Classroom* report published in February 2005. Funding can form a significant barrier to out of classroom education, especially when it is not acknowledged as a valuable educational experience.

4. The FSC have welcomed initiatives by the DfES such as the London Challenge, part of which entitles all students in London to a fully funded residential experience,¹ acknowledging the value of such experiences. However this funding is over a limited period of time and is not at present intended to be continued or indeed expanded beyond London. The majority of funding made available for residential experiences and outdoor activities such as Summer Activities for 16-year-olds and the London Student Pledge is provided by the National Lottery, which is important in the short term, but is not a sustainable source of funding.

5. A recent report published by Citizen's Advice, *Cost of a Free Education*, indicates that parents of secondary school children are having to pay £948.11 per year (DfES figures) on their free education. The report recommends that the DfES provide schools with activity funding to ensure equal opportunity is upheld and this is a position shared by the FSC.

6. The FSC are collating demonstrable evidence on the positive impacts of OOCE, including increased educational attainment and improved behavioural attitudes to teachers and fellow students. The FSC would therefore ask the DfES to undertake research on the cost benefits of OOCE.

7. Aside the cost of funding educational trips, the FSC have been pushing for focused continuing professional development, ensuring they are both competent and confident to take students outside of the classroom, raising the motivation and quality of teaching in this area.

8. The FSC are involved in the development of the DfES's *Outdoor Education Manifesto*, however, do not see this as a replacement for further funding to ensure equality of opportunity for students, or future investment in teacher training in this area.

¹ The FSC co-ordinate the residential schemes between 2003–06.

9. As recommended in the Committee's Report *Education Outside the Classroom*, the FSC support the recommendation that DfES funded school transport arrangements should include transport for school trips, as this is a significant cost barrier in providing off-site visits.

10. Within the Department's Five Year Strategy for Children and Learners it is acknowledged that to develop and deliver a richer secondary curriculum opportunities need to be widened beyond the classroom, as these often provide for the most memorable experiences at school.² The FSC are eager to see this strategy fully implemented and to work with the DfES to assist in making this deliverable.

11. DfES funding for initiatives such as the Extended Schools Programme are important for the promotion of outdoor education. The FSC fully supports the Committee in their recommendation that each LEA should have an Outdoor Education Adviser and Coordinator to promote outdoor education.

12. The FSC welcome the introduction of the Dedicated Schools Grant, which allows schools to have greater flexibility and a secure budget. However the FSC believe that part of this funding should be ring fenced for support, investment and training for teachers to develop skills in education outside the classroom. It is also imperative that funds are put aside to cover supply when teachers attend day or residential trips with students. The FSC's experience with London Challenge highlights this as a critical issue.

13. It is key that in light of this ring fenced funding; schools are required to involve organisations outside the school including those from the voluntary and community sector in aiming to deliver high quality education.

14. FSC supports the devolution of funding to regional and local level, however there are some difficulties in securing funding for outdoor education as LEA's are required to delegate an increased amount of money to schools directly. In turn the LEA's who were funding off-site visits are unable to commit funding to outdoor activity independently from the budget they set aside for schools. Schools are however, in theory, given the choice over how funds are distributed, in practice though schools are still subject to competing funding demands, which often means that outdoor education can be sidelined. If outdoor education was made an entitlement for all school children it would undoubtedly become easier to secure funding in a devolved system. It would also ensure that a group of children—often referred to as middle-learners—were not overlooked. This, again, was a critical issue identified by London Challenge teachers.

28 September 2005

Memorandum submitted by Universities UK

INTRODUCTION

1. Universities UK welcomes the opportunity to make a written submission to the Education and Skills Committee on expenditure issues in higher education. The relevant sections of the DfES Annual Report 2005, along with the provisions of the Higher Education Act 2004, highlight the Government's commitment to a well-funded, high quality higher education sector. We are grateful for the improved public investment in higher education that has taken place in the last few years, for the introduction of full-economic costing as a principle of government research funding, and for the significant increases in income that will accrue as a result of variable tuition fees. However we feel that it would be helpful for the Committee to be kept aware of the continuing investment needs in the sector.

2. It should be stressed that the over-riding requirement of the higher education sector at present is for stability—the creation of a stable environment that will allow us to focus our attention on high quality teaching and research, on creating business and community links, developing additional sources of income such as endowments, widening participation, and on ensuring that universities remain highly competitive in international markets. In order to achieve these objectives we need a predictable economic “baseline” from which to operate and we therefore urge the maintenance of existing funding levels and methods in order to avoid additional turbulence during the introduction of variable tuition fees between 2006 and 2009. Our first priority, outlined in detail below, is to ensure that Government does not reduce public investment in teaching as fee income comes on stream from 2006.

3. Another element in maintaining a stable planning environment is the maintenance of institutional autonomy and the avoidance of top-down micro-management. This will allow us to concentrate our attentions on delivering according to the needs of students and other clients and on managing our response to changes in the external environment, particularly the international student market. We therefore applaud the Department's continued recognition, in Chapter 9, that “it is not for the Government to run universities, or even to seek strong controls over how they run themselves”.

² DfES, 5 Year Strategy for children and Learners, Chapter 5, No 23, July 2004.

INVESTMENT NEEDS IN THE HIGHER EDUCATION SECTOR

Maintain the unit of funding for teaching

4. The first investment need of the higher education sector is the maintenance of the unit of funding during a period of continued growth. We welcome the commitment made by the Government during the passage of the Higher Education Act to maintaining the unit of funding in real terms during the current Spending Review period in order to ensure that income from variable tuition fees is truly additional. This was implemented in the Secretary of State's Grant letter for the period 2005–08, which maintained the unit of funding for teaching at 2003 prices (real terms). However the importance of maintaining the unit of funding is so vital that we feel that it should be enshrined in a longer term objective. We would therefore suggest that the PSA Target relating to increasing participation towards 50% of those aged 18–30 should include a reference to maintaining per-student spending levels in real terms, as per paragraph 7.17 of the Treasury's 2004 Spending Review.

Part-time students and part-time study

5. The provisions of the Higher Education Act increase the total unit of resource for full-time undergraduates and put in place a generous package of support funding for students. However part-time students will not receive an equivalent level of financial support and, from 2006 universities are likely to receive less for teaching part-time students than for full-time students. The net result of this is that the part-time student market, which is crucial in helping to deliver the Government's objectives for increasing and widening participation, may be undermined either because these activities become relatively uneconomic or because increased fees and/or inadequate support lead to a depression in student demand. Universities UK has commissioned research on part-time students and part-time study in order to collect the necessary evidence base for a properly informed policy decision in this area. We would like to work closely with the Department in looking for an improved package for both part-time students and part-time providers.

Teaching Infrastructure

6. As noted in Chapter 13 of the Departmental Report, the Government has invested considerable capital funds in higher education and is contributing to addressing past underinvestment in the HE sector infrastructure. We welcome this investment, but note that the majority of it has been allocated to research. Our 2004 Spending Review submission drew on the work of JM Consulting and showed a need for £2.2 billion capital to address historic maintenance backlogs in teaching infrastructure and enable modernisation of buildings and equipment. The 2004 Spending Review allocation in real terms for non-research capital was £1.2 billion, leaving a continued £1 billion shortfall. In addition JM Consulting identified a need for a further £0.8 billion for recurrent infrastructure maintenance and renewal. It is essential that UK universities have a high quality, fit-for-purpose teaching infrastructure which provides students with a state-of-the-art learning environment. This would, amongst other things, allow universities to develop new approaches to pedagogy. It is also essential that maintenance of this infrastructure is at the core of the sustainability agenda.

Full Economic Costs for EU Research Projects

7. Universities UK strongly supports the commitment of all government departments to ensuring that public funding for research is based on the full economic costs incurred by universities. We would wish to draw the attention of the Committee to the fact that research funding from the European Union is not based on the FEC principle. In consequence, UK universities who take on significant amounts of European Union-funded research are being forced to engage in unsustainable business. We have commissioned research to assess the extent of this problem and would welcome the opportunity to work with the Department in attempting to rectify the situation.

One-Off Human Resource Costs

8. We would wish to draw to the attention of the Committee the fact that there are a number of one-off human resource costs that are placing, or will be placing, an additional burden on the sector. The main element in this category is the cost of implementing a modernised, single-spine pay framework, which were assessed at £525 million in our 2004 Spending Review submission. In addition there are general costs associated with recruitment and retention of staff. This is particularly the case in specific subjects such as teacher education, where the higher education sector is competing with salary uplifts in other parts of the public sector.

CONCLUSION

9. We welcome the huge steps forward that have been taken in higher education funding over the last few years, and the continuing commitment to underpin quality and growth in the sector. However we feel that it is important to highlight to the Committee the specific areas where further investment needs to take place, and to stress the need for an underpinning stability in the domestic funding environment.

September 2005

Memorandum submitted by CASE (Campaign for State Education)

CASE (Campaign for State Education) is a national campaigning organisation committed to high quality and well resourced education for all children and young people. It is a voluntary organisation funded by members' subscriptions and donations and it has no political affiliations.

CASE believes that whatever funding system is used for schools it must be equitable and meet the needs of all children. There are "winners and losers" in all funding systems and currently some schools have surpluses, whilst others have deficits. However it is important to ascertain the reasons for these eg surpluses might be pre-allocated for a specific purpose. CASE would seek reassurance as to how equitable the new three year funding will be and the implications for "losers".

In particular CASE requests the Select Committee to consider the following:

1. The three year funding cycle (initially two years) and whether the planned "stability" may lead to an inflexibility, which hinders schools' ability to plan. CASE is particularly concerned that the DfES has not fully costed the Workforce Remodelling reforms. With Planning, Preparation and Assessment (PPA) time the DfES guaranteed a 1% funding increase to cover the additional time, although the actual costs appear to be much higher. CASE has requested information on the DfES calculation to justify this 1% increase and a survey of all primary schools (It is this sector where there are known to be budgetary problems). In a reply to CASE, the DfES responded to an example we gave on Salford schools by saying "Some of the Salford heads do have tight budget situations and a lot are using their surpluses or underspends to fund PPA" CASE believed this situation is reflected across the country and using surpluses and underspends is clearly not sustainable in the long term, particularly if funding is calculated for two years without assessing the real position in primary schools. It is also not clear whether the 1% increase will be carried forward to future years. A CASE Briefing is attached.

Schools are now entering the third phase of workforce remodelling with the restructuring to Teaching, Learning Responsibilities (TLR) and future budgets may be fixed before the financial implications of this are known.

2. CASE would also like to draw the Committee's attention to a 2005 Association of London Government report "Breaking Point". This examines the impact of pupil mobility on schools. One of the conclusions is that schools with high mobility face additional demands which translate into additional costs for extra administration, teaching and other support eg the induction and settling in process has clearly identifiable costs, but the DfES does not provide any additional resources for schools with high pupil movement.

The report also concludes that schools with high mobility are often schools with high levels of educational disadvantage. Such schools are often already underfunded to meet this educational disadvantage. This is even more acute in schools with significant numbers of children with English as a second language, and some schools have a significant number of pupils in all three categories. This is also supported by DfES research which acknowledges that current funding does not provide sufficient resources to meet the needs of educationally deprived children or those with English as an additional language. (Study of Additional Educational Needs, Phase II, PwC, April 2002). The schools often do well by these pupils but lack sufficient funding, and indeed may suffer financial penalty because they do not have full pupil rolls. This report supports CASE's view that the current funding formula does not address the multiple additional needs in some schools.

CASE requests the Committee to particularly consider these inequalities in the funding system, since the children who are affected are often those who most need access to educational opportunity. In this context, CASE believes it is not equitable that up to £6 billion is being spent on capital costs for 200 academies.

September 2005

Memorandum submitted by the Association of Colleges (AoC)

GOVERNMENT SPENDING

1. The DfES Annual Report for 2005 is the first to summarise the outcome of the 2002 spending review. When the then Secretary of State, Charles Clarke, issued the spending review figures in a written statement to Parliament in September 2004, the AoC publicly queried the following Government decisions:

- (a) The decision to increase school budgets at a faster rate than the LSC budget given that the number of school pupils will not grow between 2005 and 2008 while the number of 16–18-year-olds will continue to expand;
- (b) The decision to increase university budgets at a faster rate than the LSC budget given that the Government's ambitious plans to widen access to higher education and to tackle adult skills require expansion in the college sector; and
- (c) The likelihood that the funds available will be insufficient between 2005 and 2008 to meet the DfES Public Service Agreement targets for post-16 education and training without significant cuts in spending on any activity that does not directly contribute to the targets.

2. The DfES Departmental Report summarises spending plans in the various sectors on Pages 94 and 95. The figures for the LSC budget are summarised in the following table:

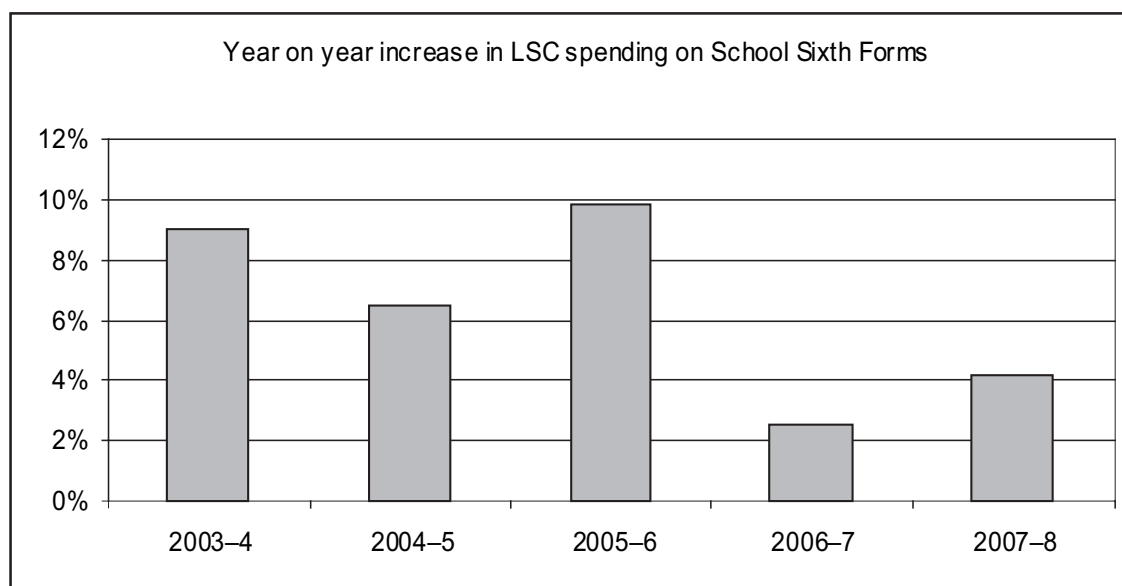
£ million	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
School sixth forms	1,399	1,525	1,624	1,784	1,829	1,906
Main LSC budget	6,076	7,057	7,291	7,514	7,640	7,984
Total LSC	7,475	8,582	8,915	9,298	9,469	9,890
Change		+ 14.4%	+ 3.8%	+ 4.2%	+ 1.8%	+ 4.4%

3. The AoC understands that some of these figures may have been revised since June 2005 when the report was published but not in any way that changes the questions we have about them.

ADEQUACY OF THE BUDGET FOR SCHOOL SIXTH FORMS

4. Our first question is about the adequacy of the budget for school sixth forms. The chart below shows that the DfES expects a significant slowdown in LSC expenditure on school sixth forms from 2006 yet this does not square with other policy statements from Ministers, in particular:

- (a) Funding rates: the information in the Written Statement from the Schools Minister, Jacqui Smith (21 July 2005: Column 128WS), on school funding that the LSC will match the minimum funding guarantee for schools in both 2006–07 and 2007–08. The minimum funding guarantee is expected to be 4%.



- (b) Funding growth: the flexibility offered to schools in LSC funding for school sixth forms which gives them 100% funding for every extra 16-year-old they recruit and every additional course they take. This flexibility contrasts with the way in which 16–18 growth in colleges is planned and funded.

- (c) Expansion: the DfES plans to encourage schools to open and expand sixth forms (set out in the “Five Year Strategy for Children and Learners”, July 2004) and the provision of a 16–19 capital fund (mentioned on page 108 of the Departmental report) to pay for extra buildings from 2006–07. A subsequent circular from the LSC has confirmed that there will be £100 million in this capital fund in 2006–07.
- (d) Participation forecasts: The DfES’s own forecasts (on page 132 of the Departmental Report) that the number of 16–18-year-olds in schools will rise from 434,000 in 2004–05 to 441,000 in 2006–07, a rise of 1.6%.
5. At the very minimum, the AoC forecasts that LSC spending on school sixth forms will need to rise by 10% (5% a year) between 2005–06 and 2007–08. This implies the current budget is under-funded by £56 million.
6. Given the DfES’s past policy that school sixth form spending should take priority in LSC budget decisions, any under-funding in 2006–07 and 2007–08 will directly affect all other areas of spending.

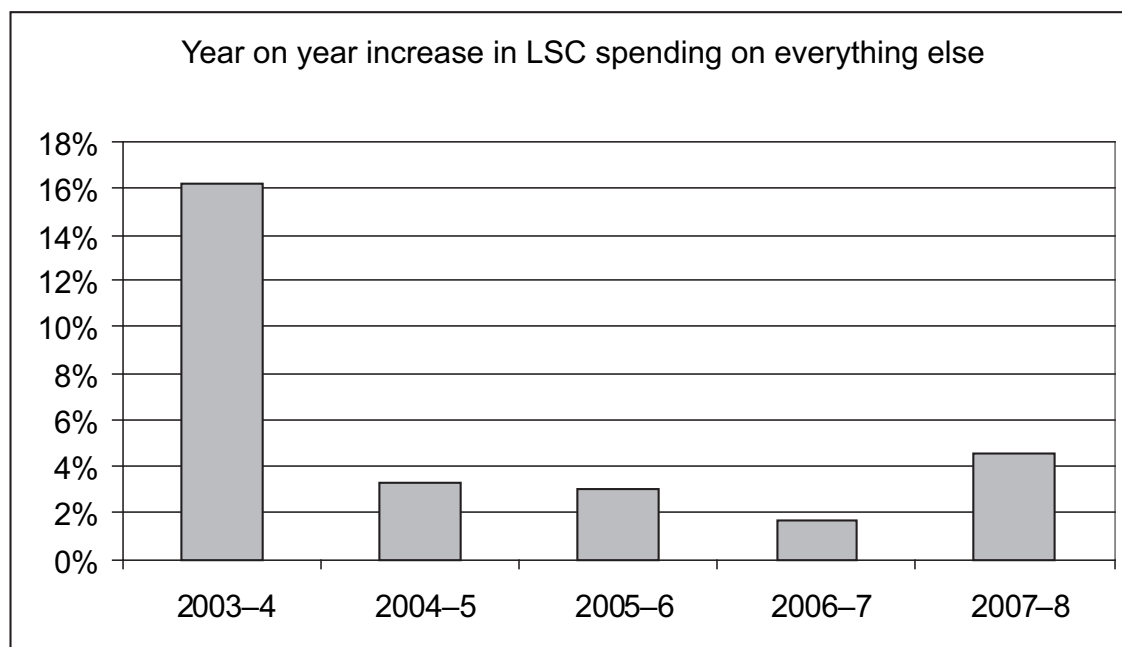
ADEQUACY OF BUDGET FOR PRIORITIES COVERED BY THE LEARNING AND SKILLS COUNCIL

7. The Departmental Report summarises progress against various Public Service Agreement targets. Many of these targets are covered by the Learning and Skills Council, in particular Targets 11–14 which cover the need to:

- (a) increase the number of 19-year-olds with level 2 and 3 qualifications;
- (b) reduce the number of 16 and 17-year-olds who leave education and training;
- (c) improving the basic skill levels of adults; and
- (d) increasing participation in higher education (which requires a supply of well-qualified applicants).

8. The DfES report confirms the good progress made towards many of the post-16 targets up to 2004. In particular, it reports that 839,000 adults achieved basic skills qualifications between 2001 and 2004. More than 90% did so via college.

9. The AoC believes that further progress towards the post-16 targets is threatened by DfES spending decisions outlined in the DfES report. The chart below summarises the planned changes in LSC spending on everything else (apart from school sixth forms).



10. There has been clear evidence of strains in the LSC budget in 2005. Moving forward, the limited increases in the budget needs to be spread over the following areas:

- (a) Pay increases needed to keep up with inflation and to deliver the improvement expected in the Government’s *Success for All* programme. According to information from the DfES, average college lecturer pay is at least 6% below school teacher pay. Pay levels have also fallen behind comparable levels in the private sector. Without spending in this area, it will be difficult for the college sector to deliver the Government’s 14–19 and skills strategies.
- (b) 16–18 participation, which is rising faster in colleges than schools because of demographic growth and because government programmes like Education Maintenance Allowances focus on young people who might otherwise have left education.

- (c) The more intensive nature of 16–18 programmes, which reflects the desire of young people, their parents, universities and employers for a broader curriculum (for example additional AS levels, vocational courses and key skills).
- (d) The expansion implied by the national skills for life target, which requires the DfES to improve the basic skills of more than a million adults over the next four years. To deliver it, the Learning and Skills Council will need to divert public funds from other adult learning budgets.
- (e) The National Employer Training Programme which is to be launched in 2006 but, which is only partly funded. The LSC will need to divert funds to pay for it, forcing colleges to raise fees and cut courses that aren't covered.
- (f) The expansion implied in the Government's higher education reforms. These aim to encourage more people from disadvantaged backgrounds to go into higher education but while universities will be getting more money from Government and from top-up fees to make this happen, colleges will be forced to cut access and other level 3 courses which are one of the main routes into HE.
- (g) The costs of the safeguard to protect learning for personal and community development (courses that do not lead to qualifications). This will protect some of the existing courses for pensioners and parents.

11. The AoC does not believe that the DfES has allocated enough money to fund these calls on the LSC budget with the result that we will see significant cuts in activities and programmes in 2006 and beyond.

ALTERNATIVES TO GOVERNMENT FUNDING FOR ADULT LEARNING

12. There are no easy alternatives to Government funding because Government policy, rightly, requires 16–18 education, basic skills and courses for those who are unemployed to be offered for free.

13. Colleges do generate about £250 million in fee income to supplement the £5 billion that they receive from the Government and they are taking steps to increase this figure. DfES figures show that colleges also reduce fees to other students—at an estimated cost of £100 million—but this is generally to support clear national priorities. Fees are typically reduced for small businesses, trade union courses, pensioners and adults returning to study.

14. The AoC welcome the Government's policy that fees should rise in the longer term because we believe that employers and adults in a position to pay more should do so. However fees are no solution to the funding problem. Employers are reluctant to pay more when they get mixed messages about paying for training. The Government-backed Employer Training Programme will offer them free courses at the same time as the Government is asking them to pay more on other areas.

15. Finally, any plan to raise prices (fee levels) only raises a small amount of extra money because higher fees discourage some students, leaving colleges to generate more per student from fewer students. Colleges were put under pressure to increase fees by an average of 15% in 2005–06, which is six times the current rate of inflation. It is too early to say whether this has affected recruitment but the DfES cannot bank on significant additional income for colleges from further increases of this order.

THE 16–18 FUNDING GAP

16. In January 2005 the House of Commons Education and Skills Committee made the following recommendation as part of their report on "Public Expenditure":

"It makes no sense that a student undertaking a course at a further education college should, other things being equal, be less well funded than a student taking the same course at a local school. The Secretary of State appears to recognise that truth, but progress towards equal funding is painfully slow. Greater urgency is needed. Further Education Colleges should not be seen as a means to providing education on the cheap."

17. Research commissioned by the Learning and Skills Council (LSC) from the Learning and Skills Development Agency (LSDA) and published in July 2005 estimates that the gap is not less than 13.3%.

18. Bill Rammell, Minister of State for Lifelong Learning, Further and Higher Education said in response to the publication of the LSDA research:

"The Government acknowledges that, despite significant investment in FE and a narrowing of the difference between funding rates, there remains a funding gap between school sixth forms and colleges. We must be clear that continuing progress on narrowing the gap will not be easy and will depend on the resources available. However, . . . we intend to explore the scope for addressing the technical anomalies between the school sixth form and further education funding systems. We aim to announce decisions on the way forward in the autumn."

19. The AoC welcomes the LSC's initiative to commission research from LSDA on the 16–18 funding gap and the positive response of Ministers to the findings but we are not convinced that the DfES has made funds available to deliver this promise.

20. The funding gap matters because it is a question of both excellence and equity. The majority of 16–18-year-old students are in college not schools. Colleges offer more choice than school sixth forms and have demonstrated their quality in inspections, success rates and student satisfaction. In terms of examination outcome the highest achieving colleges match or surpass the best independent schools. The Government is missing an opportunity to develop this excellence further by denying funding to the institutions that create it.

21. Furthermore, the Government's failure to address the funding gap perpetuates injustice. The Government's own surveys show that colleges enrol a higher proportion of 16-year-olds who have failed at school, a higher proportion who come from poorer families and, in many cities, a higher proportion of those with minority ethnic backgrounds. The Government's failure to close the funding gap denies resources to those who need them most.

THE CONSEQUENCES OF THE GOVERNMENT'S SPENDING PLANS

22. The Treasury allocated an extra £7.5 million for the education and skills in England in the 2004 spending review. The total budget overseen by the DfES rises from £56.5 billion (in 2005–06) to £64.0 billion (in 2007–08). The AoC estimated that the DfES needed to increase spending on learning and skills by £1.9 billion in the same period to deliver its targets and the promises made by Ministers. The DfES Departmental report states that spending controlled by the LSC will rise from £9,298 million to £9,890 in the review period. The increase—£592 million—is one-third of the AoC's assessment of need. If the DfES does not revise either its spending plans or its targets:

For 14–19 education

23. No progress will be made in closing the funding gap between schools and colleges.

24. Colleges will be forced to withdraw from 14–16 education partnerships with schools which currently operate at a financial loss because of the benefits that such programmes deliver to 14 and 15-year-olds.

25. The future of some dedicated 16–19 institutions (sixth form colleges) will be thrown into doubt for financial reasons.

26. Progress in developing the 14–19 white paper will be slow.

For adult learning

27. Course fees will continue to rise and there will be fewer fee concessions for pensioners and working adults. Where courses run, they will be targeted on those who can afford to pay.

28. Courses will be closed if they do not explicitly lead to targets, even if the course attracts adults back to learning.

29. Fewer evening classes will reduce community access to college buildings. Also, colleges will be more cautious about spending money to modernise buildings to improve facilities.

30. The choice of courses will be more limited. It will be more difficult to learn a language or new skills. People stuck in dead-end jobs will have fewer opportunities to change careers.

31. The public money that is available will be spent on a limited menu of basic skills and foundation courses for those at work. Government money will be used to subsidise in-company training at the expense of everything else. For example, older workers will have fewer opportunities to learn new skills appropriate to the modern workplace.

32. There will be less support for costs related to courses—fewer colleges will help adults with childcare or transport.

THE ADMINISTRATIVE BURDEN

33. Finally, the DfES Departmental report confirms that money will continue to be spent on administration rather than teaching. Even after the current efficiency review, the Government still plans to spend hundreds of millions on regulating, planning and inspecting the post-16 system. Some of planned spending on post-16 administration is contained in Annex L of the DfES report.

September 2005

Memorandum submitted by the Campaign for Science and Engineering in the UK (CaSE)

PUTTING THE GOVERNMENT'S STATED COMMITMENT TO SCIENCE INTO PRACTICE IN THE DfES

1. The Campaign for Science and Engineering is pleased to submit this response following the Committee's request for evidence in advance of its session with the Secretary of State for Education and Skills. CaSE is a voluntary organisation campaigning for the health of science and technology throughout UK society, and is supported by over 1,500 individual members, and over 70 institutional members, including universities, learned societies, venture capitalists, financiers, industrial companies and publishers.

2. The Annual Report of the Department for Education and Skills contains much that is of great interest, both to the scientific community and to others with an interest in the Department's work. In pointing out what we consider to be deficiencies and shortcomings in the Department's work we do not mean to imply that we have failed to recognise those things that are being done for science and engineering (which are mentioned a total of 47 times in the report).

3. We base our comments on the supposition that the Department supports the often-stated view of the Prime Minister and the Chancellor of the Exchequer that they want Britain to be the best place in the world to do science.¹ Some of the ways in which the educational system will contribute to this aim are set out in the *Science & Innovation Investment Framework*, to which the DfES' Annual Report refers on several occasions.

PRIMARY SCHOOLS

4. The chapter of the Annual Report on primary schools has separate sections on music and languages, but mentions science just once in passing. This does not adequately reflect the importance of science. Most primary school teachers are not trained scientists (for example, 47% have no physics qualification of any kind). Partly as a consequence, they lack confidence in their own ability to engage children with scientific topics. Only about half of primary school teachers say they have "a lot of confidence" in teaching science, appreciably lower than the two-thirds who are self-assured in teaching English.²

5. A recent survey shows that only 50% of primary school teachers in England believe they have "good resources" for science and one-third of them lack the confidence to relate scientific material to everyday life.³ It is plain that more needs to be done to support science at primary school level if young people are to be given the best start in contributing to the Government's agenda for science.

SECONDARY SCHOOL TEACHERS

6. The sections of the annual report that deal with secondary education do not appear to touch on the single most crucial issue for science and mathematics—the shortage of trained specialist teachers. In mathematics alone, the country is short of about 3,400 teachers, which means that even if 40% of all British mathematics graduates were to become teachers for each of the next few years, there would still be barely enough to provide a good mathematical education for all pupils.⁴

7. Two-thirds of those who teach physics to 15 and 16-year-olds do not have a degree in physics, and one third do not even have the equivalent of an A-level.⁵ One in ten of the people who teach chemistry to students between the ages of 11 and 18 do not have any qualification in chemistry. 9% of biology teachers have no biology qualification.⁶ Only 64% of secondary school lessons in general or combined science are taught by people who claim to have a degree in the subject. 74% of biology lessons, 78% of chemistry lessons and 72% of physics lessons are taught by people with a relevant degree, but these figures include teachers with general science degrees.⁷

8. These figures are so inadequate that it is astonishing that the DfES's Annual Report does not have a detailed section on what it is doing or proposing to do to recruit more science and mathematics teachers (and indeed those in other shortage areas such as languages).

FURTHER EDUCATION

9. In ensuring that science and engineering are adequately taught at further education level, one issue of public expenditure is key. At present, colleges obtain a standard unit of resource for each student of humanities, languages and similar subjects. For students in the arts, they receive about 12% more, but this in no way meets the extra costs of teaching science or engineering, which include the need for laboratories and other practical equipment. The extra costs of music are met with a premium of 60%, and the modest premium afforded to science is dwarfed by the 72% for those studying floristry or country sports.⁸

10. It is difficult to justify these figures for the use of public money with the real needs of the country or with the Government's own stated wishes. The DfES should commit to a full review of these relative weightings for different subjects.

HIGHER EDUCATION

11. The funding of science in higher education comes in two parts—teaching and research. The Government has spent a good deal of effort in changing the system for funding teaching in recent years, with the introduction of top-up fees. However, the playing field for public funding is not level across subjects. It is possible to sustain teaching in a university department in arts or humanities using only the money available from public sources and fees. It is not possible to do the same in the sciences. That is one reason why, during the period covered by the DfES' Annual Report, there have been a number of high profile closures of important science departments.

12. This situation has recently been made worse. Until last year, universities received twice as much public money for every science or engineering student as they did for each student in the arts. This went some way to covering the additional costs of laboratories needed in the sciences. But last year, the formula was changed in an arbitrary manner, so that students in the sciences are now only funded at the rate of 1.7 times the level of arts students. This has without question accelerated the closure of science departments, at a time when the Government claims that it wants the UK to be the a world-leader in science.

13. It is astonishing that the DfES' Annual Report for the last year makes no mention of the furore over the axing of departments, which hit the newspaper headlines, prompted a parliamentary inquiry by the Science and Technology Committee,⁹ and stimulated a number of questions in the House of Commons.

14. In funding research, the Government as a whole has a good record, and this is reflected in the parts of the DfES' Annual Report that regurgitate headline figures from the Government's *Framework for Science and Innovation Investment*. However, most of the new money is coming through another Department (the Office of Science and Technology within the Department of Trade and Industry). In fact, the university community is very unhappy about that part of the research budget that is challenged through the DfES (via the Higher Education Funding Council), and its Research Assessment Exercise has been criticized by two Parliamentary Committees.¹⁰ Again, it is odd that the DfES' Annual Report seems to ignore this.

OVERALL CONCLUSION

15. The DfES is quite entitled to congratulate itself on the good things it is doing, and to draw attention to the work it has in hand or is planning to do soon. However, its Annual Report does not properly reflect the state of problems of teaching and researching in the sciences and engineering in the UK, and shows no sign that these issues are really at the forefront of ministers' minds. That would be excusable if science were a backwater or an area that the Government as a whole had chosen, for whatever reason, to sideline, or if Ministers in the DfES had explained why their approach should differ from that of the Chancellor of the Exchequer and the Prime Minister. But both have said that they want Britain to be "the best place in the world for science". Their ambition will not be achievable unless the attitude of the DfES is more positive and engaged with science than the impression given by its Annual Report.

September 2005

REFERENCES

- ¹ *Science and Innovation Investment Framework 2004–14*, HM Treasury, 2004.
- ² *A study into the professional views and needs of science teachers in primary and secondary schools in England*, Council for Science & Technology, 2000.
- ³ *Primary Horizons: Starting out in science*, The Wellcome Trust, 2005.
- ⁴ *Making mathematics count*, Stationery Office, 2004.
- ⁵ *A study into the professional views and needs of science teachers in primary and secondary schools in England*, Council for Science & Technology, 2000.
- ⁶ *Secondary schools curriculum and staffing survey*, DfES, 2003.
- ⁷ DfES, Secondary Schools Curriculum and Staffing Survey [SFR 25/2003].
- ⁸ More details and further concerns from teachers and lecturers in the Further Education sector are in *Opinion Forum: Science and Engineering in Further Education*, CaSE, 2005.
- ⁹ *Strategic Science Provision in English Universities*, 8th Report of the House of Commons Science and Technology Committee, Session 2004–05.
- ¹⁰ *Research Assessment Exercise: A reassessment*, 11th Report of the House of Commons Science and Technology Committee, Session 2003–04; *The Future of Higher Education*, 5th Report of the House of Commons Education and Skills Committee, Session 2002–03.

Memorandum submitted by the Public and Commercial Services Union (PCS)

INTRODUCTION AND SUMMARY

1. The Public and Commercial Service Union (PCS) is the largest trade union within both the Civil Service and the Department for Education and Skills (DfES). Within DfES, PCS represents generalist staff from Administrative Assistant (AA) to Grade 6, support grade and specialist staff, and members of the Senior Civil Service (SCS).

2. PCS welcomes the Select Committee's timely enquiry, and is happy to supplement this written submission with oral evidence.

3. PCS continues to oppose job cuts across DfES, which we believe will have a negative impact on the Department's ability to maintain the efficient delivery of public services. DfES remains dogmatically wedded to achieving a 31% reduction in its staffing despite the risks accruing to the Department's capacity from a reorganisation programme that the Committee has already described in its 2004 report on Public Expenditure on Education and Skills as having "clearly not been effectively worked through".

4. This memorandum covers the following issues associated with the DfES Organisational Review and job cuts within the Department:

- Impact of staff reductions with no reduction in DfES policy commitments.
- Impact on morale of DfES staff.
- The effects of accelerating DfES job cuts on Departmental capacity.
- The use and misuse of consultants within DfES.

5. PCS is not opposed to change: we believe DfES should be both efficient and effective in delivering public services, but we also believe that this requires either that the Department maintain its resource capacity to act as the leader and shaper of complex and diverse sectors or that its role is reviewed to ensure a much smaller organisation does not try ineffectually to maintain a policy and reform agenda that can only be delivered by a larger organisation. PCS is concerned DfES is now cutting staff while expanding its policy commitments: we believe that such a situation is untenable, particularly as DfES has accelerated its programme of job cuts, and we fear this will result in a negative impact on already poor morale within DfES as well as leading to a greater reliance on consultants as expensive substitutes for civil servants.

6. A major issue for PCS is the impact of the Organisational Review on the Department's capacity in the future; we do not understand why no proper risk analysis has been undertaken about the impact on delivery of the DfES' Organisational Review and its effects on staff work loads. PCS regards the fact that DfES job cuts are running well ahead of target as a threat to the Department's capacity, and as a result we call in the memorandum for the next phase of job cuts due from April 2006 to be suspended so that the DfES and the Departmental Trade Union side can jointly review their impact on the Department. PCS hopes the Committee will look favourably in its recommendations on this call as we believe the Organisational Review is now threatening DfES' long-term ability to lead and support its sectors.

IMPACT OF STAFF REDUCTIONS WITH NO REDUCTION IN DfES POLICY COMMITMENTS

7. PCS is now concerned DfES is reverting to a way of working that cannot be sustained as its staffing reduces. We believe the assurances given to staff early in 2004 about the DfES launching fewer initiatives and focussing on "fewer priorities and policies" have not been met. Although some work has been transferred to its NDPBs or wound down, DfES has also taken on additional responsibilities, as the Committee are well aware, in relation to children's services while the Department's policy commitments across the piece form a considerable and growing agenda. Eighteen months into the Organisational Review, after having shed around 750 staff, DfES has not shown any signs of being able to meet this commitment by controlling its policy agenda while leading major reform across its sectors. PCS believes this situation constitutes a threat to the efficient and effective administration of the Department and its sectors.

8. Our reading of David Normington's speech to the DfES Senior Civil Service (SCS) conference on 20 July 2005, suggests DfES senior management are aware that the DfES has reached a position in which constraints on its resources are threatening its effectiveness while confirming that the Organisational Review has not successfully controlled the Department's work load:

"In two years time we will need to shed another 700 staff on top of the 750 we have shed in the last year—that is not negotiable and for all I know there will be pressure for us to go even further. There will be no extra resources for extra administrative demands unless we create those resources ourselves by closing down some functions, increasing our efficiency and productivity; and re-engineering further our ways of working."

PCS believes this situation is creating a genuine threat to the Department's capacity to deliver. Job cuts within DfES are running well ahead of schedule, and exacerbating the mismatch between the Department's capacity and the tasks it is required to undertake. This situation has arisen, in PCS' view, as a result of the Department volunteering excessive staff reductions without ensuring it has a robust means of controlling the work demands placed on an organisation that has already lost significant staffing resource. PCS notes

with concern that while admitting the re-engineering of the Department's work load is not being systemically addressed, the Permanent Secretary falls back on a call to increase the Department's productivity, which we take to mean increasing the work loads of PCS members working in DfES yet further in an attempt to compensate for staff reductions.

9. PCS is clear the logic of the Organisational Review is that a smaller DfES is premised on its doing less work, and that this is the logical underpinning of DfES' programme of job cuts as a whole. We believe unless initiatives and policy commitments are reduced in the near future, we risk a situation in which DfES will be expected to deliver a work load that may have been appropriate for an organisation of 4,700 staff but which cannot be delivered with any semblance of efficiency or effectiveness by an organisation of around 3,300 staff. Unless DfES maintains and delivers its commitment to rationalise its activities, then the Organisational Review not only threatens to institutionalise excessive work loads within the Department, it also poses a threat to the Department's capacity to conduct its business.

10. Uncontrolled increases in work loads threatened by abandoning the original premises of the Organisational Review are neither compatible with the Department's duty of care nor with ensuring DfES continues to be effective in delivering its agenda. PCS is concerned about excessive work loads in some areas of the Department, and this confirms our view that the original logic of the Organisational Review is no longer valid. We remain committed to the view that safeguarding the health and safety of staff is a fundamental part of the Department's business agenda, and it has been neglected at a senior level within DfES. By not addressing the known health hazards arising from organisational and cultural change, the Department is also neglecting to protect the staff who are its key resource and on whom the delivery of the Departments' services absolutely depends.

11. While it may be argued the idea of DfES launching fewer initiatives, rationalising its policy commitments and priorities is unworkable given the realities of political life, PCS believes that moving back towards the approach of leading the education, skills and children, young people and family sectors by the constant generation of policy initiatives on the basis of a greatly reduced capacity poses a genuine danger to the effectiveness of the Department and its capacity to lead complex and diverse sectors. PCS therefore regards it as crucially important that if DfES is to continue shedding posts, then it must rationalise its commitments to match its capacity and resources; we also believe that Ministerial expectations must be challenged and controlled if the original logic of the Organisational Review is to be followed.

IMPACT ON MORALE OF DfES STAFF

12. PCS notes the Committee's concern expressed during its inquiry into public expenditure on education and skills in 2004 about the potential impact of the Organisational Review and job cuts on the morale of DfES staff. PCS regards staff morale an integral part of DfES' capacity and capability. It is a matter of concern that the morale and therefore the commitment of DfES staff has not been taken properly into account as the Organisational Review has developed. Although the Permanent Secretary has referred to the fact DfES has achieved Investors in People status and the outcomes of mini-staff surveys to support the view that the Department is "a positive place to work", PCS contends this does not accurately reflect the morale of DfES staff.

13. Our views about staff morale are based on our ongoing contact with members and are informed by independent professional research commissioned by the union in the later part of 2004. This research is the most comprehensive attempt to gauge the impact of the Organisational Review on staff morale undertaken within DfES; its democratic evaluation methodology has allowed individuals to put across their views with minimal input and direction from the researcher. The research was undertaken during 2004, and PCS accepts some individuals' views may have changed since the research was undertaken, but we believe the situation within DfES has not changed to the extent of invalidating its findings.

14. The research revealed a bleak picture in terms of staff morale, with individuals indicating their view that morale was low, and that faith in the Department was "at rock bottom". These views are not surprising given the widespread understanding, shared by PCS, that the Organisational Review has not been taken forward without consideration of its impact on the motivation and commitment of staff, leading to a situation in which staff believe "people do not matter in this reorganisation" and that "faith in the Department is at rock bottom". PCS is alarmed at this situation, and we believe it reflects how DfES staff have reacted to a situation in which jobs have been cut while the Department's overall work load has increased.

15. PCS does not believe staff morale has genuinely improved within DfES and as the second round of cuts, which we understand will not be underpinned by voluntary severance and retirement packages, we expect to see growing problems with morale. An environment in which staff face constant and poorly conceived change is not conducive to achieving high levels of service, and PCS warns that morale will be further undermined as the second round of DfES job cuts affect work loads and therefore individuals' capacity to deliver the high quality services that Ministers, Parliament and the public have a right to expect from the Department.

THE EFFECTS OF ACCELERATING DfES JOB CUTS ON DEPARTMENTAL CAPACITY

16. DfES is currently running well ahead of its target to cut 800 posts by April 2006, having cut some 750 posts across the Department. PCS has challenged this rush to cut posts on several occasions, calling on the Secretary of State and the Permanent Secretary to suspend the cuts process. We note David Normington's position that the cuts are non-negotiable, but it must now be sensible to suspend the process of job cuts and review in detail their impact on DfES' future capacity jointly with the DfES Trade Union Side. This position is consistent with PCS' calls to the Secretary of State and Permanent Secretary for a moratorium to be placed on planned job cuts while it also reflects the fact that cuts made to-date are, in DfES Management's phrase, the "easier" of the planned staff reductions.

17. The job cuts that have already taken place have significantly reduced the Department's productive capacity as experienced staff in the Executive and higher grades have left the Department. PCS does not believe it is concomitant with the notion of management as stewardship to allow DfES to move into a second and even more destabilising phase of job cuts without evaluating their effects. While the Department's rush to cut jobs has had a negative impact on DfES, it at least offers the time for a meaningful, detailed joint review by DfES and its Trade Union Side of the effects of the cuts made so far.

18. PCS calls for this review because we do not believe consideration has been given to the impact of accelerating job cuts on the Department's overall capacity. This situation is a matter of considerable concern for PCS and its members working in DfES who do not believe that the various strands of the Organisational Review are effectively joined up. There is no evidence to suggest that the Organisational Review has been approached as a properly conceived and carefully managed overarching programme of change. We therefore conclude that DfES' ability to deliver its policy commitments has been put at risk because the Department has accelerated its programme of job cuts while not delivering the reduction in its overall work load that is the precondition for cutting posts and maintaining delivery capacity. PCS does not believe a further round of job cuts undertaken without properly reviewing their impact will lead to anything other than a worsening of the current situation.

19. In its memorandum of February 2005 to the Committee on *Every Child Matters*, PCS argued that the conjunction of leading a major external reform programme while undertaking restructuring and cutting posts with the Children, Young People and Families Directorate (CYPFD) posed a risk to its capacity to deliver. PCS still holds the view that CYPFD's ability to lead a major reform programme has been put at risk by combining this with major internal change, and we believe this is now true for DfES as a whole. The Department has put itself in the position of operating on two fronts as it attempts to reorganise radically while delivering its policy and reform agenda. In his speech to the DfES SCS Conference already cited, Mr Normington called for "further reshaping of DfES". PCS is alarmed by this statement: we do not believe that further radical reshaping of DfES is a recipe for greatness but one for destabilisation, adding the stresses of further intensive internal change to the delivery pressures faced by the Department. It further indicates the need to review fully the impact of job cuts on DfES before the organisation finds itself struggling with wide-ranging external and internal reform with a staffing resource base that has been further eroded.

20. In her letter of 7 June 2005 to the DfES Trade Union Side Chair, the Secretary of States stated that, in earlier correspondence calling for a moratorium, the TU Side and PCS' focus was "solely on the interests of staff" when she was clear that the Department's focus should be external, on "the interests of children and learners". PCS finds it difficult to reconcile this with the radically internal focus of concentrating on further structural and contractual revision, which we understand is likely to include proposals for a new grading structure. PCS does not believe further resource intensive radical internal change is necessary or desirable within DfES. There is no guarantee that any changes to the structure, grading and terms and conditions of the Department will result in improved performance or better value for the tax payer. Indeed, PCS believes the Permanent Secretary's remarks indicate that the Department's senior management is now looking for ways to offset a potentially crippling loss of capacity as result of failure to control overall demands on DfES' capacity as its programme of job cuts is implemented.

THE USE AND MISUSE OF CONSULTANTS WITHIN DfES

21. PCS have been concerned for some time about the use of consultants within DfES, and what we regard as the unacceptable use of consultants in civil service roles in some parts of the Department. We have received nothing from DfES to allay our concerns about the use of consultants as expensive substitutes for DfES civil servants, and the Department's refusal to provide the DfES Trade Union Side with sight of a National Audit Office report on its use of consultants has exacerbated our concerns. PCS has no quarrel with the legitimate use of consultants, but we must reflect our members' concerns and sometimes anger about the way in which the Organisational Review has led to the misuse of consultants and an unacceptable blurring of the boundaries between the roles of civil servants and the roles of consultants.

22. PCS believes that the use of consultants as substitutes for civil servants is not appropriate, and leads to inordinate expenditure on work performed by consultants that civil servants can undertake or could be trained to undertake within a relatively short time. PCS members believe consultants are in some cases undertaking very similar work to themselves while receiving substantial greater remuneration, and this has had a negative effect on the morale of those staff. More generally, we believe DfES has allowed an organisational culture to develop in which consultants are seen as more valuable to the organisation than

its own staff. This culture fosters dependency on consultants and leads to a situation in which consultants have become entrenched in key policy areas, such as City Academies, to the extent that that DfES has developed its own two-tier workforce, with consultants being seen as indispensable to the delivery of programmes rather than a necessary but short-term supplement to the Department's capacity.

23. While PCS does not wish to single out any particular area of the Department, we believe it is appropriate to provide the Committee with an example of consultants being used in what should be civil service roles. Within the Department's Academies Division, we have found that consultants, secondees and civil servants work alongside each other in similar and sometimes identical roles. It is our understanding that the division contains two units headed by consultants, one of whom has staff management responsibilities for civil servants in breach of the requirement that consultants "should have no direct control over Departmental staff" while also providing briefings for ministers. The consultant headed New Policy Unit contains 15 staff, some six of whom are consultants but who do not offer services to the Department that are different in kind or quality to those provided by its civil servants.

24. The result in this instance of using consultants as substitutes for civil servants is to pay much more for work that can be delivered more efficiently in-house. PCS' understanding is that the remuneration for the consultant heads of unit is at least three to four times that of a Grade 6 civil servant (the grade's current London pay band is £48,334–£59,383) who would normally and properly undertake such a role. In the context of the Organisational Review's efficiency strand, it cannot make any financial sense to use consultants to undertake work that can be done as well, far more cheaply and as effectively by a civil servant. PCS has raised our concerns about the situation in Academies Division with the Department; we believe that it is not acceptable for consultants to be used in this way when staff reductions are generating staff surpluses across DfES. It is also, we contend, very poor management of public funds to fill civil service posts with expensive consultants when the Department is planning to reduce its staffing by a further 700 posts by April 2008.

25. Having given this example, PCS stresses that we regard the misuse of consultants within the DfES as corporate issue, and believe that DfES senior management as a whole, including the Accounting Officer, have a responsibility to ensure that consultants are used appropriately. In our view an organisational culture that does not equate the substitution of consultants for civil servants with poor value for money is not one that values the need to ensure that public funds are used effectively. PCS believes such a culture exists within DfES and the Organisational Review so far has been ineffectual in challenging a culture that is not prudent about using public resources to engage the services of consultants. We can find no evidence to show that the Organisational Review has had any impact on the Department's culture of dependency on consultants, but has in some instances exacerbated that dependency.

26. This dependency culture has led to what we believe is an inappropriate use of consultants within DfES Directorates to mask the full impact of job cuts on their capacity to deliver. PCS has found 228 individuals identified as consultants in DfES' staff directory along with a further 61 individuals who are identified as contractors. This equates to more than 5% of the Department's staffing cadre, and indicates a heavy use of consultants who are used for long periods or regularly enough to warrant inclusion in DfES' staff directory. Schools Directorate has 111 identified consultants and CYPFD has 66 identified consultants, which we understand includes a team of about 12 consultants improperly undertaking day-to-day work on regional programme support. PCS has identified these areas as the main users of consultants within the Department. Our figures will certainly include consultants who are being used legitimately but it has been clearly stated in a formal meeting that Schools Directorate use consultants to "iron out peaks and troughs and plug gaps", which indicates consultants have been used in the Directorate to undertake civil service functions at a higher cost to the tax payer as DfES divests itself of a third of its workforce.

27. The level of dependency on consultants is also illustrated in the response to Austin Mitchell's Parliamentary Question (PQ) of 21 July 2005 about spending on management consultants, Mr Rammell as Minister of State for Lifelong Learning, Further and Higher Education stated that DfES spent £4.0 million in 2002–03, £4.7 million in 2003–04 and £3.9 million in 2004–05 from administration costs. This level of expenditure is significant in terms of administrative costs, and while PCS welcomes the reduction in expenditure in 2004–05, we are not convinced that this expenditure represents good value for the tax payer, having seen no evidence to suggest that paying for consultants from administrative costs are enhancing the Department's ability to deliver its agenda. On the contrary, we are concerned that as DfES administrative costs are tight and will tighten further, deploying administrative resources on consultants means that scarce resources are not being used to support DfES' accommodation and ICT infrastructure as well as being diverted away from the remuneration of the staff who actually undertake the Department's work, and on whom its overall efficiency and effectiveness ultimately rests.

28. PCS is as concerned about expenditure from programme budgets, which Mr Rammell stated had provided £4.4 million to meet costs for management consultants between November and March 2004–05. PCS is concerned this snapshot of spending on consultants over five months indicates the likelihood of excessive use of consultants. DfES did not centrally record charges for all forms of consultancy work before November 2004, and therefore will not provide historical information about the amount of programme monies that it has diverted to consultancy costs. We contend that while amount of money spent from programme budgets may be small in relation to the Department's overall programme funds, it is not acceptable for DfES to use consultants to offset the impact of its self-imposed staff cuts at the expense of its

programmes. It is also noticeable that the Department's response to Mr Mitchell's question and other PQs indicate it has never sought to provide adequate monitoring of expenditure on consultants. This we believe to be a significant failing, which while having been rectified, has also encouraged DfES' cavalier attitude to the use of consultants.

September 2005

Memorandum submitted by the Association of University Teachers (AUT)

INTRODUCTION

1. The Association of University Teachers is a trade union and professional association representing academic and academic-related staff in UK higher education. Most of our 48,000 members work in the pre-1992 universities and colleges.

THE USE OF TOP-UP FEE INCOME IN HIGHER EDUCATION

2. We welcome the additional public spending on higher education in England to 2007–08, as set out in the 2005 Departmental Report of the Department for Education and Skills, providing increases for the sector over the period of the 2004 spending review at well above the rate of inflation. After years of steady decline we also welcome the fact that the unit of funding for teaching in England is being held constant in real terms over this period.³ Having turned the corner we hope this will become an increase in future years.

3. This submission is written a year before the introduction of variable top-up fees for full-time UK and EU undergraduates at English higher education institutions. The opposition of AUT and many other organisations to the principle of variable top-up fees during the passage of the Higher Education Bill through Parliament is well-documented. However, with the re-election of the Labour government in May we accept the reality of the situation, namely that top-up fees are here to stay over the lifetime of this Parliament at least.

4. Therefore our concern now is to ensure that this additional income is used most effectively. It is clear that a proportion is required to fund a sustainable bursary system to promote access to HE. Furthermore, once they are in HE, these fee-paying students will rightly demand high quality facilities—such as sufficient library books, adequately sized lecture theatres and access to modern IT facilities—and it is therefore right that a proportion is spent improving these. Finally, it is vital that this additional income is also used to ensure sufficient numbers of well-qualified, highly motivated staff. We believe a primary means of achieving this is through improving salaries for university staff.

5. We therefore echo the statement of the former higher education Minister Alan Johnson MP in the House of Commons on 29 April 2004 that institutions use at least one third of that extra income on pay:

“... the Prime Minister, in a speech late last year, said: “The shortfall of teaching funding has badly hit the salaries of academic staff, which have shown practically no increase in real terms over two decades.” That is one of the reasons why we are pursuing the controversial measures in the Higher Education Bill.⁴ Not only are we putting in an extra £3 billion from the taxpayer, but an extra £2 billion will come through existing fees and through the increase. University vice-chancellors tell us that, in general, at least a third of that money will be put back into the salaries and conditions of their staff. That will make an enormous contribution in tackling a very serious and deep-seated problem.”⁵

6. Beyond providing bursaries in line with their access agreements with the Office for Fair Access, HEIs have not made public their detailed plans for the use of the additional income through top-up fees (total income is likely to be in the region of £570 million in 2006–07, rising to £1,170 million in 2007–08). Given the well-publicised and widely accepted fact of the shortfall in the salaries of academic staff, and the serious implications of this loss of earnings for recruitment and retention, we would like to urge HEIs to carry out their intention to allocate at least one-third of top-up income for salaries.

7. It is this commitment that we would like to see the Secretary of State for Education and Skills re-affirm, with the support of the Education and Skills Select Committee.

September 2005

³ Charles Clarke, Annual letter of guidance to HEFCE, 13.12.04, Annex A.

⁴ The Bill became an Act in July 2004.

⁵ <http://www.publications.parliament.uk/pa/cm200304/cmhansrd/vo040429/debtext/40429-03.html#40429-03>—spnew1

Further memorandum submitted by NATFHE

INTRODUCTION

NATFHE—The University & College Lecturers' Union represents 68,000 lecturers, tutors, managers and researchers in higher, further, adult and prison education. With the news that the discussion leading to the next Comprehensive Spending Review is to be delayed a year following the retiming of the Economic Cycle, NATFHE welcomes this opportunity to identify some current concerns about higher education funding.

Key Issues:

- The decline of academic salary levels relative to comparable professions' and the impact on the ability of institutions to recruit and retain academic staff.
- The lack of leverage to ensure that new funding intended to deliver higher academic pay and greater equality is delivered as intended by Ministers as evidenced from the misuse of nearly £1 billion of new funding through the HEFCE Rewarding and Developing Staff initiative since 2001.
- The need to hypothecate an adequate proportion of new Tuition Fee income to increase pay levels in accordance with statements made by the Prime Minister and Minister of State for Education during the debate on the introduction of Top Up Fees.

The decline of academic salaries

Public perceptions of the earnings of university academics are not matched by the reality within UK universities which have overseen a decline in academic pay. The extent of that disparity in earnings was estimated to be 30% by the Bett Committee⁶, which recommended that academic salaries should be increased by that amount in order to close the gap between academic pay and the pay of comparable professional groups. Since the publication of the Bett report universities have done little to address the issue of pay, recruitment and retention. Lecturers start their careers (on average at age 28 after a PhD), on £24,352 rising to £30,304. After 14 years (having become senior lecturers) most earn £37,513⁷.

Equivalent professionals are provided with higher salary levels as follows⁸:

University Lecturers/Senior Lecturers	£24,352–£37,513
General Practitioners:	£46,455–£70,710
Teachers (advanced scales):	£37,902–£47,469
Tax Inspectors:	£44,520–£63,990

Pay increases for comparable groups between 1994–2003 clearly demonstrate that the pay differentials between academic staff and comparable professional groups are widening. From 1994–2003 salaries of the following professions have changed in real terms as follows⁹:

Higher education teaching professionals:	+ 6.6%
Public sector average earnings:	+ 12%
Personnel, training and industrial relations managers:	+ 23%
Managers/senior officials in government (HEO to senior principal/grade 6):	+ 31%
ICT professionals:	+ 22%
Medical Practitioners:	+ 27%
Secondary Education teaching professionals:	+ 12%
Chartered and certified accountants:	+ 12%

The widening gap in pay between academic staff and comparable professional groups is a source of discontent amongst existing staff and acts as a barrier to recruitment. Academic staff can now command significantly higher salaries in other fields. The recently published DfES research commissioned from the NIESR into recruitment and retention for academic staff¹⁰ found that "Academic pay is low relative to that in other highly qualified jobs in the UK, which is likely to reduce entry to the sector". The report recommends that pay levels be increased to improve retention of experienced staff and to assist the recruitment of high calibre graduates.

⁶ Independent Review of Higher Education Pay and Conditions Chaired by Sir Michael Bett published 1999.

⁷ Annual Salary £pa from 1 August 2005.

⁸ Professions indicated are all comparators used in the Bett Report on academic pay. Figures are current salary ranges 2004–05.

⁹ Source: *New Earnings Survey (series)*.

¹⁰ Recruitment and retention of Academic Staff in Higher Education, Metcalf, Rolfe, Stevens and Weale, National Institute of Economic and Social Research 2005.

The inability to deliver on academic pay and equality

In 2001 then Secretary of State for Education David Blunkett announced an ambitious new funding initiative designed to increase pay in higher education. By August 2006 institutions in England will have received nearly £850 million of public funding which should have been used to improve pay levels for HE staff and improve equality. On 16 November 2000 Education and Employment Secretary David Blunkett announced plans to increase publicly planned funding to improve pay levels and improve equality. Mr Blunkett said:

“I recognise that staff recruitment and retention, equal opportunities and human resource development are central to providing a world class higher education. There will be £50 million in 2001–02, rising to £110 million in 2002–03 and £170 million in 2003–04, to support increases in academic and non-academic pay.

This will be a something for something reform, to help institutions to recruit and retain the key staff they need to improve further the quality of teaching and learning, and help modernise management and reward systems, on top of any pay increase which universities negotiate. These plans will be scrutinised in detail by the Funding Council.”

The two important features of this announcement are firstly that the money was clearly intended to be directed towards pay, and secondly that Government tasked HEFCE to oversee the distribution and use of the new funding.

However straightaway the DfES and HEFCE began to retreat from the position set out by the Secretary of State as reflected in the subsequent HEFCE consultation on how the money should be spent. HEFCE decided with the agreement of the DfES that the new funding intended to increase pay levels should be used for the following purposes:

- addressing recruitment and retention difficulties through the use of market supplements;
- meeting specific staff development and training objectives;
- developing equal opportunities targets, ensuring equal pay for work of equal value, using institution-wide systems of job evaluation;
- conducting regular reviews of staffing needs;
- conducting annual performance reviews of all staff; and
- taking action to tackle poor performance.

It rapidly became clear that institutions had used the first round of funding in 2001 for mainly non-pay purposes. The AUT estimated that only 30% or £16 million of the £50 million funding for 2001 was spent on pay. Evidence suggests that this money was not used to increase basic pay or to improve promotion prospects, instead it was used to pay market supplements and to fund progression for chosen individuals. Much of the funding was used to pay for private sector consultants, new managerial posts and on development for Human Resources departments, which are now substantially larger than before. In November 2002, an alarming report was published by Deloitte and Touche on the outcomes of rounds 1 and 2 of RDS. It stated that “some of the finding has financed voluntary redundancy initiatives which has facilitated much needed change” and contained a warning that “if all the funding for the initiative is made core, then it might be diverted into other projects”.

Despite the requests from NATFHE, AUT and other stakeholders that RDS funding should be ring-fenced, HEFCE announced in 2004 that in future the funding stream would be incorporated into the block teaching grant > In effect the RDS money was poured into the general funding delivered to each institution making it more difficult to ascertain where the money has gone and how an employer has spent their allocation. The amounts of funding delivered to institutions as a result of this initiative will by the end of 2006 have exceeded £1 billion. The allocations to the English sector are set out below:

HEFCE allocations by year

<i>Year</i>	<i>HEFCE Allocations</i>	<i>Cumulative total</i>
2001	£50 million	£50 million
2002	£110 million	£160 million
2003	£170 million	£330 million
2004	£225 million	£555 million
2005	£297 million	£852 million
2006	£224 million	£1,076 million

Whilst many institutions plan to use their RDS funding to meet the costs of introducing the new pay structure¹¹, the amounts of funding provided to the sector far exceeds UUK’s estimate in 2003 that the total

¹¹ The new higher education pay framework agreement—which must be implemented by August 2006. This new pay structure will provide modest increases of 1.1% for most staff with the opportunity to be considered for promotion or re-grading for a small proportion of employees. UUK estimates of the cost of implementation for the UK sector were £500 million.

cost of pay modernisation would be £500 million. Institutions have enjoyed the benefit of RDS funding for the last four years, during which time pay increases have averaged 3.3% for higher education staff. NATFHE is concerned that the majority of this additional funding has not been spent on measures to directly improve the pay or opportunities of higher education staff¹².

We are concerned that having created this new funding stream the Government allowed institutions to spend funds on initiatives which did not impact on staff in the way the Secretary of State intended with only minimal scrutiny by HEFCE. We are also concerned that:

1. None of the RDS funding (which by the end of 2006 will amount to £1 billion of public money) was ring fenced or hypothecated to ensure adequate resources were used to improve staff pay.
2. It appears that the Government's public statements in 2001 on the purpose of the new RDS funding stream did not match the reality. Having raised the expectations of staff that significant new funding would be available for pay and improving equality, the DfES then agreed a set of criteria with HEFCE that in effect ensured that the funding was used to increase management capacity rather than fund pay increases.
3. Following the announcement by the Secretary of State in 2001, academic staff expected that institutions would use the funding to address pay levels. The raised expectations of academic staff have not been met, which in turn adds to the potential for low morale to increase amongst key staff within the sector.

The case for hypothecation of Tuition Fee income from 2006 onwards

In England and Northern Ireland in 2006, and in Wales in 2007 (excluding Welsh domiciled students), higher education institutions are introducing variable top-up fees payable by undergraduates—a change which, as the Prime Minister has acknowledged, is intended to bring additional funding into the sector for improvements to pay, as well as other items. In Scotland extra compensatory grant has been allocated to make up for the extra income available elsewhere from Top Up fees.

We note the statement of the former higher education Minister Alan Johnson in the House of Commons on 29 April 2004: “the Prime Minister, in a speech late last year, said: ‘The shortfall of teaching funding has badly hit the salaries of academic staff, which have shown practically no increase in real terms over two decades.’ That is one of the reasons why we are pursuing the controversial measures in the Higher Education Bill.^[1] Not only are we putting in an extra £3 billion from the taxpayer, but an extra £2 billion will come through existing fees and through the increase. University vice-chancellors tell us that, in general, at least a third of that money will be put back into the salaries and conditions of their staff. That will make an enormous contribution in tackling a very serious and deep-seated problem.”

Despite those comments, university employers have now indicated that staff should not expect Top Up Fee income to be used to increase pay levels. The Universities and Colleges Employers Association (UCEA) which conducts annual pay negotiations on behalf of UK institutions has informed the trade unions that they do not anticipate that any of the new tuition fee income will be used to improve pay.

An analysis of many of the declarations made by individual institutions to the new Office of Fair Access (OFFA) shows that in some cases only 25% of new top up fee income will be spent on the provision of bursaries and grants for students. Whilst there is an undeniable need for many institutions to improve their buildings and facilities, the new funding amounting to some £1 billion per year¹³ is sufficient to upgrade facilities, provide generous student bursaries and also fund much needed increases in pay for academic staff.

We do not believe that once again Government can be allowed to raise staff expectations that new funding will be used to increase pay whilst allowing the higher education sector to ignore the imperative need to address the issue of low levels of academic pay.

To that end we believe that the DfES should as a matter of urgency ensure that the commitments given by the Prime Minister and Minister of State are delivered to the sector by stipulating that at least 40% of the new top up fee and other income is hypothecated for staff pay from September 2006 onwards. This we believe to be the only way to ensure that unlike the previous spending pledges relating to Rewarding and Developing Staff, government commitments on the use of a proportion of top up fee funding for staff pay are delivered as intended.

September 2005

¹² A NATFHE research project on the spending patterns of Post 1992 institutions in respect of RDS funding is underway. Institutions report that some 68% of RDS funding has been spent as of March 2005 on different items not restricted to pay equality.

¹³ Estimate of the net increase in funding from September 2006 over and above existing fee income.

Memorandum submitted by the Institute for Fiscal Studies

1. OVERALL TRENDS IN EDUCATION EXPENDITURE

Compared to other areas of public expenditure

The real average annual rates at which the six main areas of public expenditure—including education—have increased over time are shown in Table 1. Since Labour came to power in 1997, there have been large real increases in education spending (4.8% a year); but perhaps surprisingly this has been only the fourth fastest broad area of spending growth, after spending on the NHS (6.1% a year), Transport (5.1% a year) and Public order and Safety (4.9% a year). Education received much smaller average annual increases during the 18 years of Conservative governments from 1979–1997 (1.5%).

Education spending, along with the other components shown in Table 1 (with the notable exception of defence) has grown much more quickly over Labour's second parliament than over its first (largely due to slow growth in the first two years of the first parliament, when the inherited spending plans were adhered to, but also due to a significant under-spend by government departments in 1999–2000).

Table 1 also shows the real increases in public spending implied by the plans set out in the Government's 2004 Spending Review. Under these plans, spending on education would continue to grow as a share of national income, but less quickly than the average increases seen since April 1997.

As a proportion of GDP

Since its lowest point for at least 20 years in 1999–2000 (at 4.4% of GDP), education spending has grown rapidly as a share of national income, and in 2004–05 stood at 5.4%. This share is comparable to that last seen in the early 1980s and well above the average between 1977–78 and 2004–05 of 4.95%. By 2007–08, the share is projected to reach 5.6%. Training expenditure accounts for approximately a further 0.2% of GDP (see Figure 1).

International comparisons

The UK spent a higher share of national income on education than Japan, Italy and Germany, but a lower share than the USA and France in 2002. (Table 2). This ranking is similar if we just consider public education spending as a proportion of GDP. UK private education spending as a proportion of GDP is lower than the USA and Japan, but higher than that of France and Italy.

Table 1

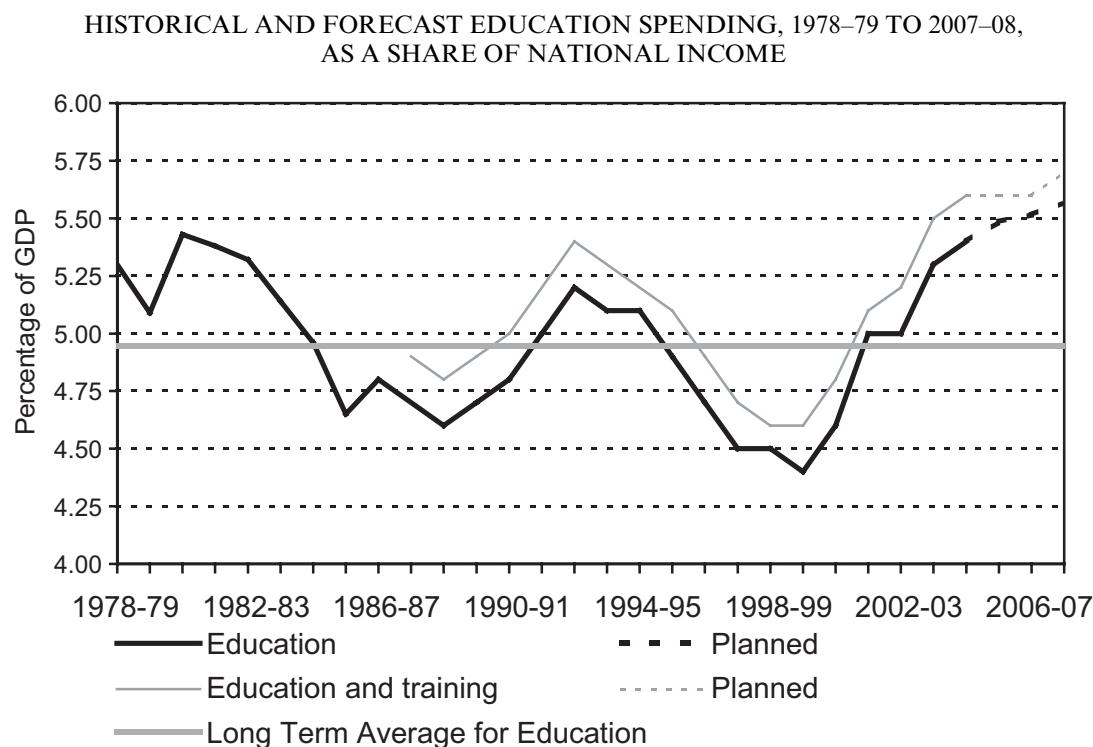
INCREASES IN VARIOUS COMPONENTS OF PUBLIC SPENDING IN THE UK

	<i>Average annual real increase in spending over:</i>					
	<i>Long-term trend</i>	<i>Conservative years April 1979 to March 1997</i>	<i>Labour years to date April 1997 to March 2005</i>	<i>Labour 1st parliament April 1997 to March 2001</i>	<i>Labour 2nd parliament April 2001 to March 2005</i>	<i>Labour spending plans April 2005 to March 2008</i>
Social security	3.7	3.5	2.3	1.1	3.5	1.0
NHS	3.7	3.1	6.1	5.0	7.1	7.2
Education	4.0	1.5	4.8	2.7	6.8	3.8
Defence	–0.3	–0.3	1.0	1.7	0.4	1.3
Transport	n/a	0.5	5.1	–4.9	16.2	2.5
Public order & safety	n/a	4.1	4.9	3.2	6.6	3.1
Total spending (TME)	2.6	1.5	3.0	1.7	4.4	3.5
Current spending	2.8	1.7	2.8	1.7	3.8	2.9
Net investment	–0.2	–4.6	13.4	–2.2	31.4	16.2
National income	2.5	2.1	2.8	3.2	2.4	2.6

Source: Education spending 1996–97 to 2007–08: Authors' calculations based on Public Expenditure Statistical Analyses 2005 Tables 1.11 and 3.2, and GDP deflators from 30 June 2005.

All other figures on this table are derived from C. Emmerson and C. Frayne, April 2005 "Public Spending", IFS Election Briefing Note <http://www.ifs.org.uk/bns/05ebn2.pdf>, whose sources are HM Treasury, Budget 2005. HM Treasury, Public Expenditure Statistical Analyses 2005 and previous PESAs; Office for National Statistics, Blue Book; HM Treasury Public Spending Statistics; Department of Health Annual Report; Office of Health Economics; HM Treasury, 2004 Spending Review and previous Spending Reviews.

Note that the Department for Education and Skills Departmental Report 2005 cites planned real annual average growth in education spending between 2004-05 and 2007-08 of 5.0%—this figure covers just England, rather than plans for the UK as a whole.

Figure 1**Table 2**

SPENDING ON EDUCATION IN SELECTED MAJOR ECONOMIES, 2002

	<i>Total Education spending, % GDP</i>	<i>Public Education Spending, % GDP</i>	<i>Private Education Spending, % GDP</i>
Japan	4.7	3.5	1.2
Italy	4.9	4.6	0.3
Germany	5.3	4.4	0.9
UK	5.9	5.0	0.9
France	6.1	5.7	0.4
USA	7.2	5.3	1.9

Source: OECD, *Education at a Glance*, Paris, 2005

2. TRENDS IN ELEMENTS OF EDUCATION EXPENDITURE IN ENGLAND

Categories of education spending compared

Table 3 shows the real average annual growth rates of the different components of education spending between 1997 and 2005 in England, also decomposed by Labour's two terms of office. The components that saw the most rapid average growth over the entire period were the Under 5's (9%), Schools' Capital (11.9%), Schools' Other (9.7%) and Further Education (5.3%). Primary and Secondary current expenditure have seen nearer to the average growth in education spending over the entire period (4.4% and 5.1% respectively). It is noteworthy that Higher Education spending has grown by an average of only 1.2% between 1997 and 2005. Equally notable is the fact that real spending on Student Support has actually fallen by an average of 3.7% per year over the period.

The relative priorities identified above are similar across both terms, but with significant increases in most components' growth rates for the period 2001–05 compared to 1997–2001. The only exception is Further Education, which saw very low growth in Labour's first term, but has seen substantial year on year growth of more than 10% since 2001. The 10.8% average increase in administration and inspection since 2001 is also quite striking and is probably largely due to an increase in inspection activity.

Plans going forward to 2008 are not provided on a consistent basis by spending category and so we do not analyse them here.

Table 3

EDUCATION SPENDING GROWTH 1997 – 2005 BY COMPONENT IN ENGLAND

	<i>Average annual real increase in spending over:</i>		
	<i>Labour years to date April 1997 to March 2005</i>	<i>Labour 1st parliament April 1997 to March 2001</i>	<i>Labour 2nd parliament April 2001 to March 2005</i>
Schools, current	5.7%	4.8%	6.7%
<i>Of which:</i>			
Under 5s	9.0%	7.4%	10.7%
Primary	4.4%	3.2%	5.5%
Secondary	5.1%	3.3%	6.9%
Other	9.7%	14.3%	5.4%
Schools capital	11.9%	10.5%	13.3%
FE	5.3%	1.3%	9.5%
HE	1.2%	– 2.1%	4.6%
Student Support	– 3.7%	– 3.9%	– 3.4%
Admin & Inspection	1.4%	– 7.2%	10.8%
Total	4.8%	2.8%	6.9%

Source: Authors' calculations based on Departmental Report 2005, Department for Education and Skills, Cm 6522, London:TSO, Table 12.3

From 1999–2000, a portion of local authority administration and inspection costs is delegated to schools and is included within the school current expenditure lines. These figures in part reflect the transfer of responsibilities for early years inspection from local authorities to Ofsted. This largely explains the apparent large drop in administration and inspection expenditure between 1997 and 2001 and means that the true annual average real growth rate between 1997 and 2005 is also artificially depressed.

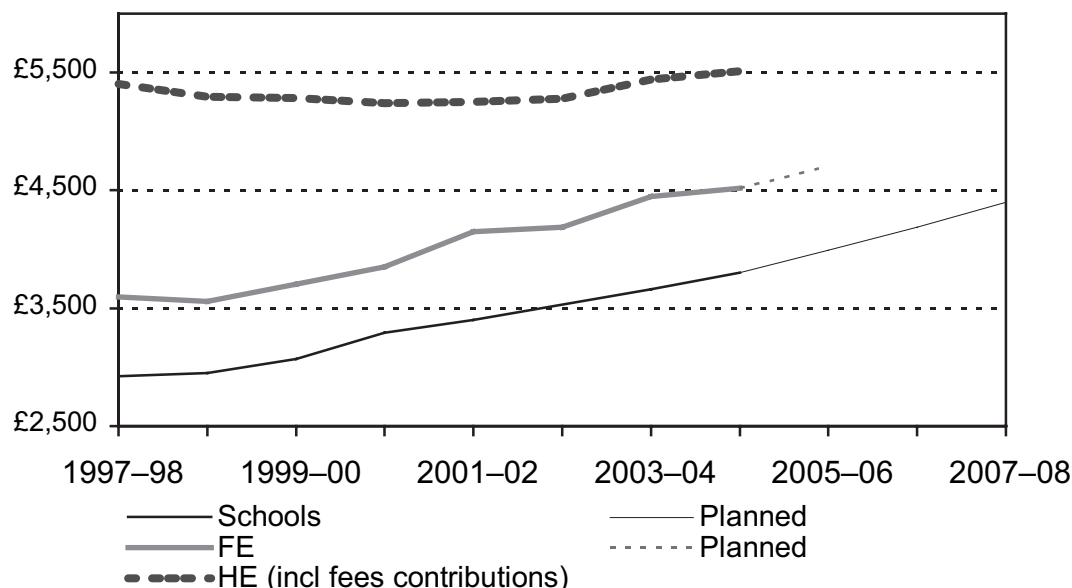
3. THE BALANCE OF SPENDING PER HEAD ACROSS DIFFERENT STAGES OF EDUCATION

Figure 2 shows the revenue funding per student in England figures published by the DfES in its departmental report. However, these only decompose education spending per student into Schools (ages 3–19), Further Education and Higher Education, making more detailed analysis of spending across the life-cycle problematic. They do show that there has been steady growth in both Further Education and Schools funding per student, with little growth, if any, in Higher Education spending per student—closing the gap between Higher and Further Education spending per student. (Note that the figures DfES provide for Higher Education spending per student include private as well as public contributions to tuition fees, whereas the other categories cover only public expenditure).

Figure 3 shows current spending per head of the population in the Under 5's, Primary and Secondary sectors in England, as opposed to current spending per student, which would not capture the increased coverage of Under 5's provision. It shows that when Labour came to power in 1997 spending per head sloped upwards by age. However, the rapid growth in the under 5's sector, as seen in Table 3, has led to the development of a U-shaped spending pattern per head across school ages. Although the Further Education and Higher Education spending per student shown in Figure 2 are not entirely comparable to the spending per head figures in Figure 3, their values do give some further support to the idea of a U-shaped spending pattern, with the most support provided at the earliest and then the later stages of the education system.

Figure 2

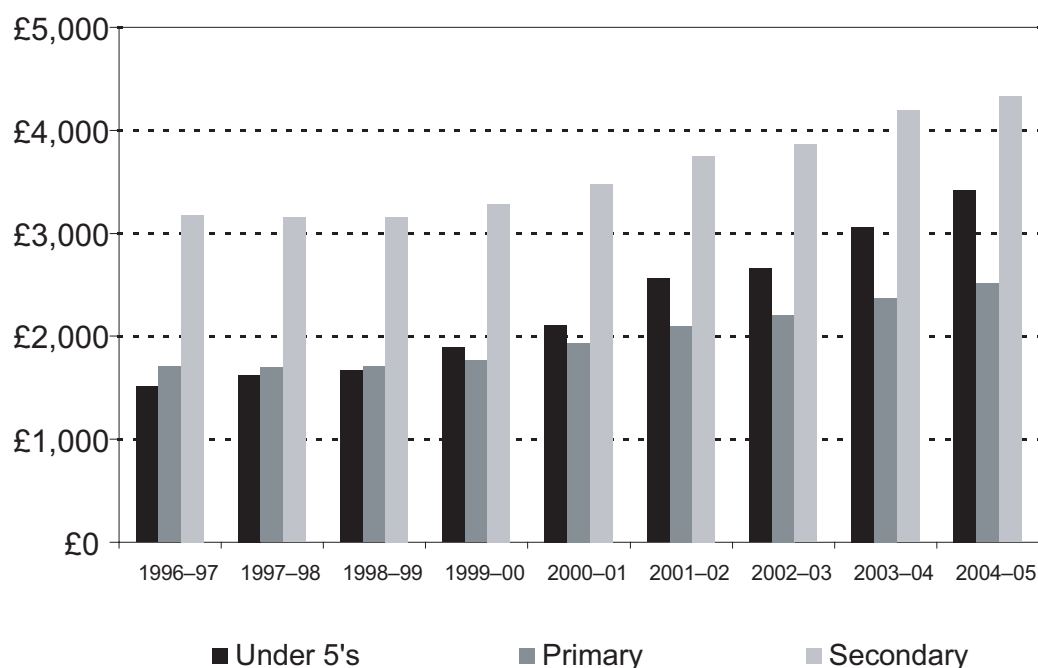
EXPENDITURE IN REAL TERMS PER STUDENT IN ENGLAND, 1997-98 TO 2007-08



(Source: *Departmental Report 2005*, Department for Education and Skills, Cm 6522, London:TSO, Table 12.5,12.6,12.7). Figures presented in 2003-04 prices.

Figure 3

EXPENDITURE IN REAL TERMS PER HEAD IN ENGLAND, 1996-97 TO 2005-05



Source: Authors' calculations based on *Departmental Report 2005*, Department for Education and Skills, Cm 6522, London:TSO, Table 12.3 for current education spending figures. Population figures are taken from the 2001 census (from the ONS website). Figures are presented in 2003-04 prices. For example, spending per head for the under 5's was calculated by dividing expenditure on the under 5's by the total number of three and four-year-olds in the population.

*International comparisons***Table 3**

SPENDING PER STUDENT ON EDUCATION BY CATEGORY
Spending per student, relative to the UK *Spending per student per unit of average income, relative to UK*

	<i>Under 5's</i>	<i>Primary</i>	<i>Secondary</i>	<i>All tertiary</i>	<i>Under 5's</i>	<i>Primary</i>	<i>Secondary</i>	<i>All tertiary</i>
Japan	44	119	107	99	48	122	113	105
Italy	64	140	116	74	72	150	126	80
Germany	59	88	108	93	66	94	113	100
UK	100	100	100	100	100	100	100	100
France	53	98	130	78	55	100	135	83
USA	93	156	140	174	76	122	109	139

Notes: Indices for spending per student are taken from figures that were converted into US dollars using purchasing power parities. Spending per student per unit of average income is calculated as spending per student by sector as a proportion of GDP per capita. Italy's figures only include spending on public institutions and the USA's figures only include spending on public and independent private institutions.

Source: OECD, *Education at a Glance*, Paris, 2005

Table 3 shows spending per student and spending per student as a proportion of GDP per capita, relative to the UK, for selected OECD countries. It shows that the UK spends slightly more per student in the primary sector than France and Germany, but quite a lot less than Japan, Italy and the USA. In the secondary sector, the UK spends much less per student compared to other OECD countries. The UK does spend more per student in the tertiary sector relative to other European countries, in absolute terms and relative to average income. However, the biggest spender per head in the tertiary sector is the USA. The most interesting result is that in comparison with other OECD countries, the UK spends substantially more per student in the under 5's category. Moreover, the under 5's is the only category where the UK outspends the USA.

The latest OECD data on education spending also confirms that the UK has a U-shaped spending pattern across the lifecycle. Moreover, they suggest that the UK is quite unique in its U-shaped spending pattern, spending more per student than other countries in the tertiary and pre-primary sectors, but less in the primary and secondary sectors.

4. EARLY YEARS' EDUCATION

The Government launched its 10-year childcare strategy in December 2004. Implementing this strategy will undoubtedly mean that the trend towards increasing expenditure on the under-5s will continue.

The Department for Education and Skills estimates that total expenditure on education for 3- and 4-year-olds is currently around £2.7 billion per year, of which approximately £1.1 billion goes towards providing free part-time nursery places.¹⁴ We have estimated that the 10-year strategy could approximately double the annual cost of free nursery provision.

A major challenge in implementing the strategy will be in expanding the sector whilst maintaining and improving the quality of provision. Here the development of the childcare sector workforce will be key. Although a transformation fund has been set aside to help achieve this goal, it is not clear how this will operate, nor how any incentives it puts in to place will be maintained once the transformation fund winds down.

Another challenge will be ensuring that the new provision actually reaches the groups of children and parents the Government is trying to target. Much of the expansion in early years' services is being driven by supply-led initiatives, where the Government provides subsidies to providers to start-up or further expand their early years' provision. The Neighbourhood Nurseries Initiative and Children's Centres are examples of these. Initiatives such as these are designed to ensure that provision is set up in areas where there is perceived to be the greatest need; however a real concern is that it is still the better off parents in these areas who disproportionately gain access to these services. With demand-side initiatives such as the childcare element of the WTC, it is much easier for government to better target the subsidy at the families and children that they see as most in need, but if there are problems with take-up, or there is not suitable or affordable childcare available then again their policy objectives will not be met.

It will also be important to monitor how the roll-out of the 10-year Childcare strategy impacts on children as they move through the education system. We are concerned that simple and relatively inexpensive mechanisms that will enable the DfES to monitor the impact of this strategy are not in place. For instance the DfES keeps individual pupil level annual census data (PLASC) data on all children in state schools, combined with data on attainment. However we feel that it is a matter of urgency that:

¹⁴ Data released in response to Freedom of Information request on 16 March 2005.

- Every 3 and 4-year-old child receiving a component of free nursery provision should be included in PLASC including children in the Private and Voluntary sectors (at present only those in free nursery education places where these nurseries are attached to schools are included). Given that all providers currently have to give LEAs information on children and hours in order to receive the subsidy, we feel that the increased administrative burden would be minimal.
- Foundation profile records should be collected centrally for all children starting school, not just the 1 in 10 sample as currently used by DfES. Again, there should be minimal additional cost arising from the inclusion of all children.

These measures would ensure that DfES can use administrative data to monitor the effects of the early education system on children as they move into school and beyond; this would be of huge benefit to informed policy-making in the future.

5. SCHOOLS

As seen from Table 3 the UK, relative to the other OECD countries highlighted, lags behind in terms of Primary and Secondary school spending per student. From Figure 3 we see that there has been a substantial increase in spending per head in the Under 5's sector; this combined with more modest increases in Primary and Secondary schools has led to a U-shaped spending pattern across age groups. This is of particular concern since there is strong evidence that early investment in education reaps the greatest long-term benefits (Carneiro and Heckman, 2003¹⁵). The Government seems to have acted upon this evidence with respect to the Under 5's, but not with respect to primary schools. There is a risk that not enough investment in primary school education will lead to an inability to sustain the gains that are intended to arise from the increase in Under 5's expenditure.

One thread of recent government policy is to encourage successful schools to expand to allow as many children as possible to gain a place. However it is important to realise that while specific funding mechanisms exist to allow successful secondary schools to apply for funding to cover the capital costs of expansion, the same is not the case for primary schools (for example, see Hansard 21 June 2005, Column 1023W).

6. FE AND ADULT EDUCATION

From Figure 2 we can see that the Further Education sector has enjoyed large real increases in funding since 2001, along with other areas of education spending. However we have some serious concerns about the policy emphasis on qualifications in this sector, embodied in the DfES PSA target to "reduce by at least 40% the number of adults in the workforce who lack NVQ 2, working towards this, one million adults in the workforce to achieve level 2 between 2003 and 2006."

Whilst there is clear evidence on the returns to qualifications obtained at school and at Higher Education institutions, the current evidence suggests that many intermediate vocational qualifications, especially NVQs at Level 1 and Level 2 do not confer any wage benefits on most recipients (see Dearden, McGranahan and Sianesi, 2004¹⁶).

The targeting of qualifications in this context seems in part to reflect a belief on the part of government that policy-makers are well placed to predict the country's skill needs, and that left to themselves, learners and employers will pursue the wrong skills, or not learn or train "enough". It is also, however, a manifestation of the more general audit culture in which any form of public expenditure is tied to measurable targets. Qualifications are far easier to measure than learning, but the current evidence on the lack of returns to such qualifications suggests that despite best intentions, public expenditure in this area may not be providing best value for money.

7. HIGHER EDUCATION REFORMS

The reforms to Higher Education funding, which are due to be fully implemented by 2006–07, will require considerable additional funds from the public sector, alongside the increase in graduate contributions through top-up fees. Based on the latest DfES cost estimates, we calculate the additional annual taxpayer costs associated with the reforms to be £1.2 billion per year. Most of this will pay for the extension to student loans, which, it should be noted, are "off balance sheet" expenditures, and will not score as spending when assessing the Chancellor's fiscal rules. The rest will pay for new student grants.

A major concern about this expenditure is the unnecessarily complicated design of the new system of student support that it will pay for. As we set out in submission to DfES in April 2004¹⁷, the new system will involve a combination of five different income tapers, with the maximum amount of maintenance loan of £4,405 advertised by DfES available only to students with family income of exactly £33,560. There are two main problems with this design:

¹⁵ Carneiro, P and Heckman, J (2003), *Human Capital Policy*, NBER Working Paper No 9495.

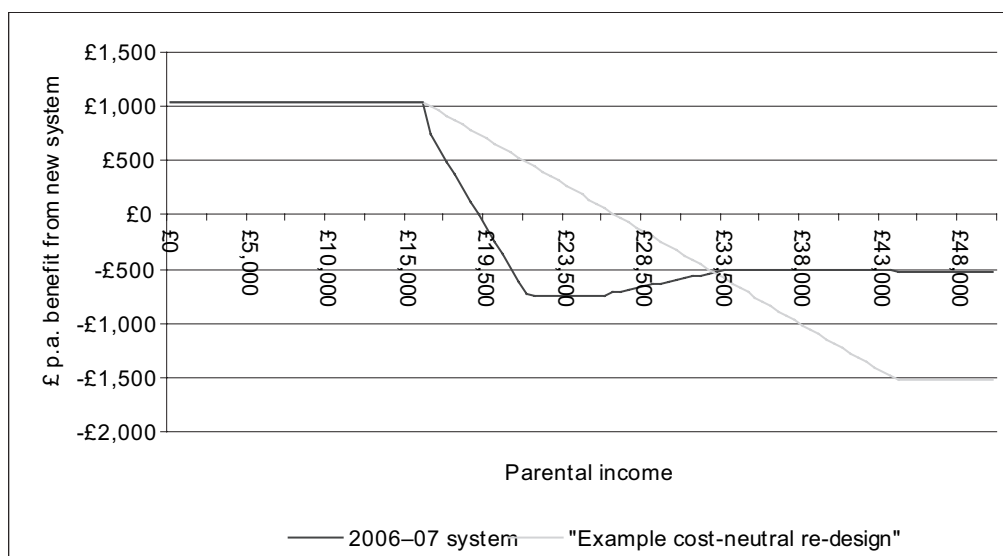
¹⁶ L McGranahan, B Sianesi and L Dearden, "The role of credit constraints in educational choices: evidence from the NCDS and BCS70," December 2004, CEE Discussion Paper No 48.

¹⁷ Dearden, L, Fitzsimons, E and Goodman, A (2004) Fine-tuning the HE reforms. http://www.ifs.org.uk/docs/fine_tuning.pdf

- The unnecessary complexity of the new system is particularly concerning given how important it is for young people to be able to understand the new funding system being put in place. There is a real danger that the lack of transparency in determining eligibility to student support (in particular the split between loans and grants for any individual) will mean that the extra money being provided fails to have its desired effect in encouraging young people to stay on at university.
- It is also extremely concerning that compared to the system it is replacing, it is students from parental incomes between £22,100 and £26,000 who will be expected to make the biggest additional net contribution to the cost of their tuition and maintenance, taking into account both new fees and student support (see Figure 4). Depending on the level of the top-up fee, and on their exact circumstances after they graduate, students from this parental income range will have to contribute around £750 more per year towards the cost of their education (compared to the “pre-White Paper” system in place in 2003–04). By comparison, those from the poorest backgrounds will be more than £1,000 better off, and those from the wealthiest backgrounds will be around just £500 worse off. This pattern arises simply because of the way that the maintenance loans and grants are due to be tapered, and could easily be avoided if the system were re-designed in a cost-neutral way. It should be noted that the £22,100–£26,000 income range is a particularly dense part of the income distribution with parents largely in the 2nd and 3rd income deciles—arguably it is exactly students from these families that the Government is trying to encourage rather than dissuade from attending university.

Figure 4

THE CHANGE IN NET COST OF ATTENDING UNIVERSITY DUE TO SWITCH FROM
2003–04 TO 2006–07 FUNDING SYSTEMS, BY PARENTAL INCOME



Note illustration is for student in first or second year living away from home outside of London. Calculations available from authors.

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Memorandum submitted by Tony Travers, London School of Economics and Political Science

1. AN ANALYSIS OF EDUCATION SPENDING TRENDS, 1998–99 TO 2004–05

Education expenditure as a proportion of gross domestic product (GDP)

1.1 Public expenditure on education in the United Kingdom was equivalent to 5.6% of GDP in 2004–05, a rise from 4.6% in 1998–99. Table 1 shows education spending as a proportion of GDP for each year since 1998–99. Spending has increased as a share of the economy during a period of economic expansion, so the resources made available have increased significantly in real terms. It is worth adding that public expenditure on education and skills as a proportion of GDP was also well over five per cent in the early 1990s. There is now evidence that the increase in public expenditure on education (as a percentage of GDP) is levelling off. Health expenditure, on the other hand, continues to rise as a proportion of the economy.

Table 1**PUBLIC EXPENDITURE ON EDUCATION AS A % OF GDP, 1998–99 TO 2004–05—UNITED KINGDOM**

	1998–99	1999–2000	2000–01	2001–02	2002–03	2003–04	2004–05
Education as % of GDP	4.6	4.6	4.8	5.1	5.2	5.5	5.6
Health as % of GDP	5.4	5.4	5.6	6.0	6.3	6.7	7.0

(Source: *Public Expenditure Statistical Analyses 2005*, Cm 6521, London: TSO Table 3.4).

EDUCATION EXPENDITURE, BY SUB-SECTOR, IN REAL TERMS

1.2 Table 1 showed overall UK public education expenditure as a proportion of GDP. Another way of analysing spending is to compare changes adjusted to take account of inflation (ie in real terms). Table 2 shows real terms spending on each phase of education in each year since 1998–99.

Table 2**EDUCATION EXPENDITURE, BY SUB-SECTOR, 1998–99 TO 2004–05—ENGLAND**

	1998–99	1999–2000	2000–01	<i>£ million, in real terms</i>		2003–04	2004–06	Change 1998–99 to 2004–05
				2001–02	2002–03			
Schools current— total	21,545	23,073	25,120	27,501	28,362	31,171	32,510	+ 50.0%
of which:								
Under fives	2,067	2,296	2,573	3,095	3,141	3,549	3,859	+ 86.7%
Primary	7,679	7,963	8,651	9,327	9,714	10,282	10,737	+ 39.8%
Secondary	9,692	10,114	10,883	11,942	12,409	13,651	14,199	+ 46.5%
Other	2,120	2,700	3,013	3,137	3,105	3,689	3,716	+ 75.3%
Schools capital (total)	1,358	1,468	1,793	2,041	2,217	2,534	2,957	+ 117.7%
Further education & adult	3,804	3,841	4,121	5,031	5,297	5,904	5,933	+ 56.0%
Higher education	5,160	5,477	5,091	5,335	5,480	5,728	6,097	+ 18.2%
Student support	1,578	1,383	1,419	1,211	1,219	1,210	1,236	– 21.7%
Admin & inspection	1,565	1,037	1,097	1,241	1,496	1,564	1,653	+ 5.6%
Total	35,010	36,279	38,640	42,358	44,077	48,112	50,386	+ 43.9%

(Source: *Departmental Report 2004* and *Departmental Report 2005* Department for Education and Skills, Cm 6202 and Cm 6522, London: TSO, Table 2.3 (1998–99) and Table 12.3 (all other years)).

1.3 Spending on each phase of education (apart from student support) has increased in real terms in the years since 1998–99. The final column of the table shows overall spending changes over the full period. Overall, schools' current spending increased by 50%, compared with 56% in further education and only 18% in higher education.

1.4 Table 3 summarises spending per pupil/student data for the schools, FE and HE sectors in each year since 1998–99. Spending per pupil/student has increased fastest in schools, followed by further education. By contrast, real terms higher education spending per student has remained little changed, suggesting a continuing major relative shift of public resources away from universities towards other phases of education. Other university resources, of course, may have increased.

Table 3**REAL TERMS FUNDING PER STUDENT/PUPIL, 1998–99 to 2003–04
(1998–99 = 100)**

	1998–99	1999–2000	2000–01	2001–02	2002–03	2003–04	2004–05 plans	2005–06 plans
Schools	96	100	107	111	115	119	124	130
FE	93	100	104	112	113	120	122	127
HE	101	100	100	100	101	104	105	105

(Source: *Departmental Report 2005*, Department for Education and Skills, Cm 6522, London: TSO, Tables 12.5 (derived from figures given), 12.6 and 12.7. Figures for 1998–99 derived from *Departmental Report 2004*, Tables 2.5, 2.6 and 2.7).

2. THE DfES AND THE SCHOOLS' SPENDING ISSUE: NEW PROPOSALS

2.1 In its report on last year's DfES expenditure plan, the previous Committee examined the schools funding problems that had arisen during the spring of 2003 and which had led to moves towards a "minimum funding guarantee" for schools. This guarantee meant that schools generally received about 4% extra per pupil in 2004–05, with a similar arrangement for 2005–06. For those with rising pupil numbers, the figure per pupil will be rather less than the headline one, while for schools with falling rolls, the amount per pupil will be greater than the headline figure. The smallest schools simply receive a fixed minimum percentage year-on-year cash uplift.

2.2 The impact of the funding guarantee has been to move towards a national funding arrangement, if not to a full DfES takeover of schools' resource allocations. The Government has announced that, from 2006–07, each authority's expenditure on schools will be set by the Department and fully funded from central grant. This so-called "Dedicated Schools Grant" (DSG) will then become the basis for local authorities to use their local funding formulae to allocate the overall total to individual schools. In 2006–07, the DSG will be determined for each authority as an uplift of 5% in 2005–06 spending by schools within the authority, though taking account of changing pupil numbers. A small margin of resources that the Government will not have allocated in this way—roughly 1% of the total—will then potentially be available for distribution to authorities, partly on the basis of changes in the Formula Spending Share. It is not entirely clear how this further distribution will be achieved.

2.3 Thus, the determination of the money each school receives will be based first on the Government's determination of the DSG for an authority and, second, on the local "fair funding" formula.

2.4 Once this allocation process has been completed, it will be necessary (presumably the local authority will be required to do this) to ensure that every school has received at least the year-on-year addition in resources implied by the "minimum funding guarantee". If any institution has fallen below this minimum, it will be given the guaranteed figure.

2.5 There may be an incentive for authorities to attempt to use their local distribution formula in such a way as to maximise school resources for their area. If the authority's formula-driven distribution is relatively uneven from year to year (for example, if the formula has been altered to achieve greater fairness), it is more likely the minimum funding guarantee will come into effect. Remember, the Government will grant-fund all of the resources given to schools.

2.6 The 2006–07 arrangements will be re-used in broadly the same way in 2007–08. From 2008–09, the DfES intends to introduce three-year schools funding arrangements, though this would require (amongst other things) three-year settlements for teachers' pay. Details of how three-year settlements would work are still to be determined.

2.7 It looks likely that the overall impact of the new schools' funding arrangements will be rather more conservative than the one previously operated through local Government. Because the Government wants to bring funding certainty to schools, there has been—and will continue to be—a tendency for most schools to have relatively flat-rate spending increases from year to year. Pupil numbers will be the key determinant of change. Thus, as the number of pupils rises faster in some areas than others, money will gradually move around the country.

3. GERSHON

The Gershon Review was initiated by the Chancellor to achieve radical improvements in efficiency within Whitehall and the public services. The efficiencies started at the beginning of 2005–06 and run for three years. The DfES's target savings and progress so far are outlined in the Department's memorandum to the Committee. Schools, as the largest part of the DfES budget, are expected to make the largest contribution to Gershon-inspired efficiencies. At present, it appears that the Department is seeking to achieve the improved use of resources within schools, though individual institutions are not being expected to respond directly to Gershon.

The most important issue for schools, colleges and universities is the way in which efficiencies liberate resources that can then be used for productive purposes. The DfES cannot yet point to such a redeployment of money, though this is surely a subject the Committee will wish to keep under review.

Education will need to use its resources even more carefully in future years. The 2004 Spending Review included the following plans for education and health for 2004–05 to 2007–08:

Table 4

EDUCATION AND HEALTH EXPENDITURE PLANS, 2004–05 TO 2007–08 (UK)

	2004–05	2005–06	2006–07	2007–08
Education	5.4	5.5	5.5	5.6
Health	6.9	7.1	7.5	7.8

(Source 2004 Spending Review, Cm 6237, London: HM Treasury, Tables 7.2 and 8.2).

These figures, though from different sources (both within Government) from those in Table 1, broadly continue the time-series included in the earlier table. It is clear that education expenditure will, over the next three years, enjoy a broadly flat share of GDP, while health will continue to grow. As a result of the slower growth in education spending, pressures for efficiency will intensify.

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